

INFORMATICA CORP
Form 10-Q
November 07, 2007

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

FORM 10-Q

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2007
OR**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 0-25871
INFORMATICA CORPORATION
(Exact name of registrant as specified in its charter)**

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0333710
(I.R.S. Employer
Identification No.)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of October 31, 2007, there were approximately 87,684,000 shares of the registrant's common stock outstanding.

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****INFORMATICA CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	September 30, 2007	December 31, 2006
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 150,107	\$ 120,491
Short-term investments	297,865	280,149
Accounts receivable, net of allowances of \$1,367 and \$1,666	56,468	65,407
Deferred tax assets	6,476	
Prepaid expenses and other current assets	14,866	10,424
Total current assets	525,782	476,471
Restricted cash	12,123	12,016
Property and equipment, net	11,050	14,368
Goodwill	167,697	170,683
Intangible assets	13,380	16,634
Long-term deferred tax assets, net	4,145	
Other assets	6,211	6,593
Total assets	\$ 740,388	\$ 696,765
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 3,682	\$ 3,641
Accrued liabilities	21,351	26,505
Accrued compensation and related expenses	24,241	25,793
Income taxes payable	520	6,461
Accrued facilities restructuring charges	18,628	18,758
Deferred revenues	90,977	85,364
Total current liabilities	159,399	166,522
Convertible senior notes	230,000	230,000
Accrued facilities restructuring charges, less current portion	57,052	65,052
Long-term deferred revenues	7,272	7,035
Long-term deferred tax liabilities		993
Long-term income taxes payable	4,445	
Total liabilities	458,168	469,602

Commitments and contingencies (Note 8)

Stockholders' equity:

Common stock	87	86
Additional paid-in capital	368,258	350,359
Accumulated other comprehensive income	4,957	1,796
Accumulated deficit	(91,082)	(125,078)
Total stockholders' equity	282,220	227,163
Total liabilities and stockholders' equity	\$ 740,388	\$ 696,765

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenues:				
License	\$ 40,990	\$ 33,578	\$ 120,390	\$ 103,233
Service	55,013	45,352	156,989	129,564
Total revenues	96,003	78,930	277,379	232,797
Cost of revenues:				
License	770	898	2,518	3,814
Service	17,169	14,162	50,428	42,346
Amortization of acquired technology	726	549	2,175	1,545
Total cost of revenues	18,665	15,609	55,121	47,705
Gross profit	77,338	63,321	222,258	185,092
Operating expenses:				
Research and development	17,195	13,826	52,168	41,069
Sales and marketing	38,410	33,825	112,624	100,790
General and administrative	9,025	6,997	25,884	20,575
Amortization of intangible assets	361	162	1,079	454
Facilities restructuring charges	1,003	1,108	3,078	3,386
Purchased in-process research and development				1,340
Total operating expenses	65,994	55,918	194,833	167,614
Income from operations	11,344	7,403	27,425	17,478
Interest income	5,651	5,325	16,071	12,840
Interest expense	(1,794)	(1,813)	(5,394)	(3,979)
Other expense, net	(46)	(268)	(350)	(221)
Income before provision for income taxes	15,155	10,647	37,752	26,118
Provision for income taxes	709	1,263	3,756	3,837
Net income	\$ 14,446	\$ 9,384	\$ 33,996	\$ 22,281
Basic net income per common share	\$ 0.17	\$ 0.11	\$ 0.39	\$ 0.26

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Diluted net income per common share	\$ 0.15	\$ 0.10	\$ 0.36	\$ 0.24
Shares used in computing basic net income per common share	87,428	86,187	87,062	86,500
Shares used in computing diluted net income per common share	103,151	92,412	102,912	93,326

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,	
	2007	2006
Operating activities:		
Net income	\$ 33,996	\$ 22,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,983	7,496
Share-based payments	11,671	10,016
Excess tax benefits from share-based payments	(4,130)	
Amortization of intangible assets and acquired technology	3,254	2,623
Impairment of property and equipment, net		1,035
Purchased in-process research and development		1,340
Non-cash facilities restructuring charges	3,078	3,386
Changes in operating assets and liabilities:		
Accounts receivable	9,344	4,576
Deferred tax assets, net	(11,614)	
Prepaid expenses and other assets	(1,913)	(1,055)
Accounts payable and other current liabilities	(6,717)	(7,510)
Income taxes payable	3,075	712
Accrued facilities restructuring charges	(11,086)	(10,223)
Deferred revenues	5,850	5,711
Net cash provided by operating activities	42,791	40,388
Investing activities:		
Purchases of property and equipment	(4,389)	(2,483)
Purchases of investments	(316,971)	(383,558)
Maturities of investments	265,033	177,446
Sales of investments	34,603	81,952
Business acquisitions, net of cash acquired		(46,720)
Net cash used in investing activities	(21,724)	(173,363)
Financing activities:		
Net proceeds from issuance of common stock	22,430	22,962
Repurchases and retirement of common stock	(20,628)	(66,932)
Excess tax benefits from share-based payments	4,130	
Issuance of convertible senior notes		230,000
Payment of issuance costs on convertible senior notes		(6,242)
Net cash provided by financing activities	5,932	179,788
Effect of foreign exchange rate changes on cash and cash equivalents	2,617	835

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Net increase in cash and cash equivalents	29,616	47,648
Cash and cash equivalents at beginning of period	120,491	76,545
Cash and cash equivalents at end of period	\$ 150,107	\$ 124,193

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies***Basis of Presentation***

The accompanying condensed consolidated financial statements of Informatica Corporation (Informatica, or the Company) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the financial statements include all adjustments necessary, which are of a normal and recurring nature for the fair presentation of the results of the interim periods presented. All of the amounts included in this report related to the condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2007 and 2006 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2007, or any future period.

The preparation of the Company s condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based on information available at the time that these estimates, judgments, and assumptions 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 areas in which management s judgment in selecting any 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, 2006 included in the Company s Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2006 has been derived from the audited consolidated financial statements of the Company.

Revenue Recognition

The Company derives revenues from software license fees, maintenance fees, and professional services, which consist of consulting and education services. The Company recognizes revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended and modified by SOP No. 98-9, *Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, SOP No. 81-1, *Accounting for Performance of Construction-type and Certain Production-type Contracts*, the Securities and Exchange Commission s, SAB No. 104, *Revenue Recognition*, and other authoritative accounting literature.

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

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

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

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

Collection is probable. Credit worthiness and collectibility are first assessed at a country level based on the country's overall economic climate and general business risk. For customers in countries deemed credit worthy, credit and collectibility are then assessed based on payment history and credit profile. When a customer is not deemed credit worthy, revenue is recognized when payment is received.

The Company also enters into OEM arrangements that provide for license fees based on inclusion of our technology and/or products in the OEM's products. These arrangements provide for fixed, irrevocable royalty payments. Royalty payments are recognized as revenue based on the activity in the royalty report the Company receives from the OEM or, in the case of OEMs with fixed royalty payments, revenue is recognized upon execution of the agreement, delivery of the software, and when all other criteria for revenue recognition are met.

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

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

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

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

Net Income per Common Share

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

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net income	\$ 14,446	\$ 9,384	\$ 33,996	\$ 22,281
Effect of convertible senior notes, net of related tax effects	1,100		3,300	
Net income adjusted	\$ 15,546	\$ 9,384	\$ 37,296	\$ 22,281
Weighted-average shares outstanding	87,428	86,317	87,062	86,651
Weighted-average unvested common shares subject to repurchase		(130)		(151)
Shares used in computing basic net income per common share	87,428	86,187	87,062	86,500
Dilutive effect of employee stock options, net of related tax benefits	4,223	6,225	4,350	6,826
Dilutive effect of convertible senior notes, net of related tax effects	11,500		11,500	
Shares used in computing diluted net income per common share	103,151	92,412	102,912	93,326
Basic net income per common share	\$ 0.17	\$ 0.11	\$ 0.39	\$ 0.26
Diluted net income per common share	\$ 0.15	\$ 0.10	\$ 0.36	\$ 0.24

Diluted net income per common share is calculated according to SFAS No. 128, *Earnings per Share*, which requires the dilutive effect of convertible securities to be reflected in the diluted net income per share by application of the if-converted method. This method assumes an add-back of interest and amortization of issuance cost, net of income taxes, to net income if the securities are converted. The Company determined that for the three and nine months ended September 30, 2007, the convertible senior notes had a dilutive effect on diluted net income per share, and as such, it had an add-back of \$1.1 and \$3.3 million in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation. The effect of the convertible senior notes was antidilutive for the three and nine months ended September 30, 2006.

Note 2. Acquisitions**Itemfield**

On December 15, 2006, the Company acquired Itemfield, Inc. (Itemfield), a private company with substantial operations in Israel, providing built-in support for unstructured data authored using Microsoft Excel, Word, PowerPoint, Adobe Acrobat, PostScript, PCL, Sun StarOffice, AFP, and HTML. Management believes that it is the investment value of this synergy related to future product offerings that principally contributed to a purchase price that resulted in the recognition of goodwill. The Company paid \$54 million, consisting of \$52 million of cash and 157,728 of Informatica stock options with a fair value of \$2 million, to acquire all of the outstanding common stock, preferred

stock, and stock options of Itemfield. In connection with the acquisition, the Company also incurred transaction costs of \$1 million.

Similarity

On January 26, 2006, the Company acquired Similarity Systems Limited (Similarity), a private company with substantial business in Ireland, providing data quality and data profiling software. The acquisition extended Informatica's data integration software to include Similarity's data quality technology. Management believes that it is the investment value of this synergy related to future product offerings that principally contributed to a purchase price that resulted in the recognition of goodwill. The Company paid \$55 million, consisting of \$48 million of cash, 122,045 shares of Informatica common stock (which were fully vested but subject to escrow) with a fair value of \$2 million, and 392,333 of Informatica stock options with a fair value of \$5 million, to acquire all of the outstanding common stock, preferred stock, and stock options of Similarity. In connection with the acquisition, the Company also incurred transaction costs of \$2 million.

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The results of Similarity's and Itemfield's operations have been included in the condensed consolidated financial statements since the acquisition dates. The following unaudited pro forma adjusted summary reflects the Company's condensed results of operations for the three and nine months ended September 30, 2006, assuming Itemfield had been acquired on July 1, 2006 for the three months ended September 30, 2006, and both Similarity and Itemfield had been acquired on January 1, 2006 for the nine months ended September 30, 2006. The unaudited pro forma adjusted summary for the nine months ended September 30, 2006 includes the acquired in-process research and development charge of \$1.3 million for Similarity. There was no acquired in-process research and development charge included in the unaudited pro forma for the three months ended September 30, 2006. The unaudited pro forma adjusted summary for the three and nine months ended September 30, 2006 combines the historical results of the Company for those periods with the historical results for Similarity and Itemfield for the same periods.

The following unaudited pro forma adjusted summary is not intended to be indicative of future results (in thousands, except per share amounts):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Pro forma adjusted total revenue *	\$ 80,232	\$ 237,266
Pro forma adjusted net income	\$ 6,510	\$ 13,741
Pro forma adjusted net income per share basic	\$ 0.08	\$ 0.16
Pro forma adjusted net income per share diluted	\$ 0.07	\$ 0.15
Pro forma weighted-average basic shares	86,269	86,704
Pro forma weighted-average diluted shares	92,570	93,606

* Pro forma adjusted total revenue includes \$0.1 million and \$0.6 million revenue transactions between the two companies prior to the Itemfield acquisition for the three and nine months ended September 30, 2006, respectively. Included in pro forma adjusted total revenue are \$1.3 million related to

Itemfield for the three months ended September 30, 2006, and \$4.2 million and \$0.3 million related to Itemfield and Similarity, respectively, for the nine months ended September 30, 2006.

Note 3. Share-Based Payments

On January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company elected to use the modified prospective transition method as permitted by SFAS No. 123(R).

Summary of Assumptions

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model that uses the assumptions noted in the following table. The Company has been using a blend of average historical and market-based implied volatilities for calculating the expected volatilities for employee stock options and market-based implied volatilities for its ESPP since the third quarter of 2005. The expected term of employee stock options granted is derived from historical exercise patterns of the options while the expected term of ESPP is based on the contractual terms. The risk-free interest rate for the expected term of the option and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant. SFAS No. 123(R) also requires the Company to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company used historical employee turnover rates to estimate pre-vesting option forfeitures and record share-based payments only for those awards that are expected to vest. During the nine months ended September 30, 2007, the Company reduced its forfeiture rate from 16% to 13% primarily due to recent changes in historical employee turnover rates. As a result of this change, its share-based payments expense increased by approximately \$0.5 million for the nine months ended September 30, 2007.

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Option Grants:				
Expected volatility	39%	44 47%	37 41%	43 52%
Weighted-average volatility	39%	45%	39%	49%
Expected dividends				
Expected term of options (in years)	3.3	3.9	3.3	3.9
Risk-free interest rate	4.6%	4.7 5.1%	4.6 4.7%	4.4 5.1%
ESPP: *				
Expected volatility	37%	40%	34 37%	40 44%
Weighted-average volatility	37%	40%	35%	42%
Expected dividends				
Expected term of ESPP (in years)	0.5	1.25	0.5	1.25
Risk-free interest rate ESPP	5.0%	5.2%	5.0 5.2%	5.0%

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

The allocation of share-based payments is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of service revenues	\$ 385	\$ 384	\$ 1,275	\$ 1,060
Research and development	969	791	2,806	2,220
Sales and marketing	1,359	1,254	4,390	3,525
General and administrative	1,040	1,167	3,200	3,211
	\$ 3,753	\$ 3,596	\$ 11,671	\$ 10,016

Note 4. Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income, as reported	\$ 14,446	\$ 9,384	\$ 33,996	\$ 22,281
Other comprehensive income:				

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Unrealized gain on investments *	477	470	381	509
Cumulative translation adjustment *	1,947	74	2,780	999
Comprehensive income	\$ 16,870	\$ 9,928	\$ 37,157	\$ 23,789

* The amounts do not include the tax effect on unrealized gain on investments and foreign currency translation adjustment, which has been determined not to be significant.

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accumulated other comprehensive income as of September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Unrealized gain (loss) on available-for-sale investments	\$ 238	\$ (143)
Cumulative translation adjustment	4,719	1,939
	\$ 4,957	\$ 1,796

Note 5. Goodwill and Intangible Assets

The carrying amounts of intangible assets other than goodwill as of September 30, 2007 and December 31, 2006 are as follows (in thousands):

	September 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Developed and core technology	\$ 18,135	\$ (9,471)	\$ 8,664	\$ 18,135	\$ (7,297)	\$ 10,838
Customer relationships	4,175	(1,684)	2,491	4,175	(1,057)	3,118
Other:						
Trade names	700	(158)	542	700	(8)	692
Covenants not to compete	2,000	(317)	1,683	2,000	(14)	1,986
	\$ 25,010	\$ (11,630)	\$ 13,380	\$ 25,010	\$ (8,376)	\$ 16,634

Amortization expense of intangible assets was approximately \$1.1 million and \$0.9 million for the three months ended September 30, 2007 and 2006, respectively, and \$3.3 million and \$2.6 million for the nine months ended September 30, 2007 and 2006, respectively. The weighted-average amortization period of the Company's developed and core technology, customer relationships, trade names, and covenants not to compete are 4 years, 5 years, 3.5 years, and 5 years, respectively. The amortization expense related to identifiable intangible assets as of September 30, 2007 is expected to be \$1.0 million for the remainder of 2007, and \$3.9 million, \$3.7 million, \$2.0 million, \$1.8 million, and \$1.0 million for the years ending December 31, 2008, 2009, 2010, 2011, and thereafter, respectively.

The change in the carrying amount of goodwill for the nine months ended September 30, 2007 is as follows (in thousands):

	September 30, 2007
Beginning balance as of December 31, 2006	\$ 170,683
Subsequent goodwill adjustments	(2,986)
Ending balance as of September 30, 2007	\$ 167,697

In the nine-month period ended September 30, 2007, the Company recorded adjustments of \$3.0 million due to purchase price accounting adjustments, primarily the reversal of the valuation allowance attributable to the net operating loss carry forward as part of previous acquisitions.

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6. Facilities Restructuring Charges*****2004 Restructuring Plan***

In October 2004, the Company announced a restructuring plan (2004 Restructuring Plan) related to the December 2004 relocation of the Company's corporate headquarters within Redwood City, California. In 2005, the Company subleased the available space at the Pacific Shores Center under the 2004 Restructuring Plan with two subleases expiring in 2008 and 2009 with rights to extend for a period of one and four years, respectively. The Company recorded restructuring charges of approximately \$103.6 million, consisting of \$21.6 million in leasehold improvement and asset write-offs and \$82.0 million related to estimated facility lease losses, which consist of the present value of lease payment obligations for the remaining six-year lease term of the previous corporate headquarters, net of actual and estimated sublease income. The Company has actual and estimated sublease income, including the reimbursement of certain property costs such as common area maintenance, insurance, and property tax, net of estimated broker commissions of \$1.1 million for the remainder of 2007, \$4.4 million in 2008, \$2.5 million in 2009, \$1.3 million in 2010, \$3.6 million in 2011, \$4.2 million in 2012, and \$2.3 million in 2013. If the subtenants do not extend their subleases and the Company is unable to sublease any of the related Pacific Shores facilities during the remaining lease terms through 2013, restructuring charges could increase by approximately \$9.3 million.

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 our non-discounted future cash obligations and the discounted present value of these cash obligations. As of September 30, 2007, the Company will recognize approximately \$12.5 million of accretion as a restructuring charge over the remaining term of the lease, or approximately six years, as follows: \$1.0 million for the remainder of 2007, \$3.5 million in 2008, \$3.0 million in 2009, \$2.3 million in 2010, \$1.6 million in 2011, \$0.9 million in 2012, and \$0.2 million in 2013.

2001 Restructuring Plan

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

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

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

A summary of the activity of the accrued restructuring charges for the nine months ended September 30, 2007 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2006	Restructuring Charges	Adjustments	Net Cash Payment	Non-cash Reclass	Accrued Restructuring Charges at September 30, 2007
2004 Restructuring Plan						
Excess lease facilities	\$ 71,678	\$ 2,956	\$ 222	\$ (9,038)	\$ (122)	\$ 65,696
2001 Restructuring Plan						

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Excess lease facilities	12,132		(100)	(2,048)			9,984
	\$ 83,810	\$ 2,956	\$ 122	\$ (11,086)	\$ (122)	\$	75,680

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Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the nine months ended September 30, 2007, the Company recorded \$3.0 million restructuring charges from accretion charges related to the 2004 Restructuring Plan. Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2007 if the Company is unable to sublease the excess leased facilities after the expiration of the subleases, there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates.

Inherent in the estimation of the costs related to the restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. The estimates of sublease income may vary significantly depending, in part, on factors that may be beyond the Company's control, such as the time periods required to locate and contract suitable subleases should the Company's existing subleases elect to terminate their sublease agreements in 2008 and 2009 and the market rates at the time of entering into new sublease agreements.

As of September 30, 2007, \$18.6 million of the \$75.7 million accrued restructuring charges was classified as current liabilities and the remaining \$57.1 million was classified as non-current liabilities.

Note 7. Convertible Senior Notes

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

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

The Company used approximately \$50 million of the net proceeds from the offering to fund the purchase of shares of its common stock concurrently with the offering of the Notes and intends to use the balance of the net proceeds for working capital and general corporate purposes, which may include the acquisition of businesses, products, product rights or technologies, strategic investments, or additional purchases of common stock.

In connection with the issuance of the Notes, the Company incurred \$6.2 million of issuance costs, which primarily consisted of investment banker fees and legal and other professional fees. These costs are classified within Other Assets and are being amortized as a component of interest expense using the effective interest method over the life of the Notes from issuance through March 15, 2026. If the holders require repurchase of some or all of the Notes on the first repurchase date, which is March 15, 2011, the Company would accelerate amortization of the pro rata share of the unamortized balance of the issuance costs on such date. If the holders require conversion of some or all of the Notes when the conversion requirements are met, the Company would accelerate amortization of the pro rata share of the unamortized balance of the issuance cost to additional paid-in capital on such date. Amortization expense related to the issuance costs was \$78,000, and interest expense on the Notes was \$1.7 million for both of the three-month periods ended September 30, 2007 and 2006. Amortization expense related to the issuance costs was \$234,000 and \$172,000, and interest expense on the Notes was \$5.2 million and \$3.8 million for the nine months ended September 30, 2007 and 2006, respectively. Interest payments of \$6.9 million and \$3.5 million were made in the nine months ended September 30, 2007 and 2006, respectively.

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The estimated fair value of the Company's Convertible Senior Notes as of September 30, 2007, based on the closing price as of September 28, 2007 (the last trading day of September 2007) at the Over-the-Counter market, was \$238 million.

Note 8. Commitments and Contingencies***Lease Obligations***

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement. The initial lease term is 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. The future minimum contractual lease payments are \$0.5 million for the remainder of 2007, and \$3.7 million, \$4.0 million, and \$4.2 million for the years ending December 31, 2008, 2009, and 2010, respectively.

The Company entered into two lease agreements in February 2000 for two office buildings at the Pacific Shores Center in Redwood City, California, which were used as its former corporate headquarters from August 2001 through December 2004. The lease expires in July 2013. As part of these agreements, the Company purchased certificates of deposit totaling approximately \$12 million as a security deposit for lease payments. These certificates of deposit are classified as long-term restricted cash on the Company's condensed consolidated balance sheet.

The Company leases certain office facilities under various non-cancelable operating leases, including those described above, which expire at various dates through 2013 and require the Company to pay operating costs, including property taxes, insurance, and maintenance. Operating lease payments in the table below include approximately \$95.6 million for operating lease commitments for facilities that are included in restructuring charges. See Note 6, *Facilities Restructuring Charges*, above, for a further discussion.

Future minimum lease payments as of September 30, 2007 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases	Sublease Income	Net
Remaining 2007	\$ 5,244	\$ (704)	\$ 4,540
2008	22,214	(2,752)	19,462
2009	22,241	(1,592)	20,649
2010	22,226	(285)	21,941
2011	18,023	(1,932)	16,091
Thereafter	30,359	(3,669)	26,690
	\$ 120,307	\$ (10,934)	\$ 109,373

Of these future minimum lease payments, the Company has accrued \$75.7 million in the facilities restructuring accrual at September 30, 2007. This accrual includes the minimum lease payments of \$95.6 million and an estimate for operating expenses of \$17.4 million and sublease commencement costs associated with excess facilities and is net of estimated sublease income of \$24.8 million and a present value discount of \$12.5 million recorded in accordance with SFAS No. 146.

In December 2005, the Company subleased 35,000 square feet of office space at the Pacific Shores Center, its former corporate headquarters, in Redwood City, California through May 2013. In June 2005, the Company subleased 51,000 square feet of office space at the Pacific Shores Center, its previous corporate headquarters, in Redwood City, California through August 2008 with an option to renew through July 2013. In February 2005, the Company subleased 187,000 square feet of office space at the Pacific Shores Center for the remainder of the lease term through July 2013 with a right of termination by the subtenant that is exercisable in July 2009. In March 2004, the Company signed sublease agreement for leased office space in Scotts Valley, California.

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties under the SFAS No. 5, *Accounting for Contingencies*. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in a customer's signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work-around or replacement product. The Company has provided a warranty accrual of \$0.2 million as of September 30, 2007 and December 31, 2006. To date, the Company's product warranty expense has not been significant.

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, 2007. 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.

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

The Company accrues for loss contingencies when available information indicates that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated, in accordance with SFAS No. 5, *Accounting for Contingencies*.

Litigation

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

complaint also alleges that false analyst reports were issued. No specific damages are claimed.

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

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

In September 2005, the Court granted preliminary approval of the settlement. The Court held a hearing to consider final approval of the settlement on April 24, 2006, and took the matter under submission. In the interim, the Second Circuit reversed the class certification of plaintiffs' claims against the underwriters. *Miles v. Merrill Lynch & Co. (In re Initial Public Offering Securities Litigation)*, 471 F.3d 24 (2d Cir. 2006). On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the district court. Accordingly, the parties withdrew the prior settlement, and plaintiffs filed amended complaints in focus or test cases, in an attempt to comply with the Second Circuit's ruling.

On July 15, 2002, we filed a patent infringement action in U.S. District Court in Northern California against Acta Technology, Inc. (Acta), now known as Business Objects Data Integration, Inc. (BODI), asserting that certain Acta products infringe on three of our patents: U.S. Patent No. 6,014,670, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing, U.S. Patent No. 6,339,775, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing (this patent is a continuation in part of and claims the benefit of U.S. Patent No. 6,014,670), and U.S. Patent No. 6,208,990, entitled Method and Architecture for Automated Optimization of ETL Throughput in Data Warehousing Applications. On July 17, 2002, we filed an amended complaint alleging that Acta products also infringe on one additional patent: U.S. Patent No. 6,044,374, entitled

Object References for Sharing Metadata in Data Marts. In the suit, we are seeking an injunction against future sales of the infringing Acta/BODI products, as well as damages for past sales of the infringing products. On September 5, 2002, BODI answered the complaint and filed counterclaims against us seeking a declaration that each patent asserted is not infringed and is invalid and unenforceable. BODI has not made any claims for monetary relief against us and has not filed any counterclaims alleging that we have infringed any of BODI's patents. On October 11, 2006, in response to the parties' cross-motions for summary judgment, the Court ruled that U.S. Patent No. 6,044,374 was not infringed as a matter of law. However, the Court found that there remained triable issues of fact as to infringement and validity of the three remaining patents. On February 26, 2007, as stipulated by both parties, the Court dismissed the infringement claims on U.S. Patent No. 6,208,990 as well as BODI's counterclaims on this patent. The Company has asserted that BODI's infringement of the Informatica patents was willful and deliberate.

The trial began on March 12, 2007 on the two remaining patents (U.S. Patent No. 6,014,670 and U.S. Patent No. 6,339,775) originally asserted in 2002 and a verdict was reached on April 2, 2007. During the trial, the judge determined that, as a matter of law, BODI and its customers' use of the Acta/BODI products infringe on the Company's asserted patents. The jury unanimously determined that the Company's patents are valid, that BODI's infringement on the Company's patents was done willfully and that a reasonable royalty for BODI's infringement is \$25.2 million. The jury's determination that BODI's infringement was willful permits the judge to increase the damages award by up to three times. On May 16, 2007, the judge issued a permanent injunction preventing BODI from shipping the infringing technology now and in the future.

As a result of post-trial motions, the judge has asked the parties to brief the issue of whether the damages award should be reduced in light of the United States Supreme Court's April 30, 2007 *AT&T Corp. v. Microsoft Corp.* decision (which examines the territorial reach of United States patents). The post-trial motions filed focused on the amount of damages awarded and did not alter the jury's determination of validity or willful infringement or the judge's grant of the permanent injunction. The court issued and Informatica accepted a damage award of \$12.2 million in light of *AT&T Corp. v. Microsoft Corp.* On October 29, 2007, the court entered final judgment on the case and the

Company is awaiting a possible appeal by BODI.

On August 21, 2007, Juxtacomm Technologies (Juxtacomm) filed a complaint in the Eastern District of Texas against twenty-one defendants, including us, alleging patent infringement and on October 10, 2007, we filed an answer to the complaint. It is our current assessment that our products do not infringe Juxtacomm s patent and that potentially the patent itself is invalid due to significant prior art. The Company intends to vigorously defend itself.

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

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Based on current available information, the Company does not expect that the ultimate outcome of these unresolved matters, individually or in the aggregate, will have a material adverse effect on its results of operations, cash flows, or financial position.

Note 9. Income Taxes

The Company's effective tax rate was 4.7% and 11.9% for the three months ended September 30, 2007 and September 30, 2006, respectively, and 10.0% and 14.7% for the nine months ended September 30, 2007 and September 30, 2006, respectively. Prior to this quarter, Informatica's effective tax rate was primarily based on federal alternative minimum taxes, state minimum taxes, and income and withholding taxes attributable to foreign operations. Starting in the quarter ended September 30, 2007, Informatica's effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to the impact of non-deductible stock based compensation, the release of the valuation allowance, and the tax rate benefits of certain earnings from Informatica's operations in lower-tax jurisdictions throughout the world for which the Company has not provided U.S. taxes because we intend to indefinitely reinvest such earnings outside the United States. The Company also recorded a discrete charge of \$2.5 million due to provision to return true up, and certain transfer pricing adjustments, partially offset by a discrete benefit related to stock options currently exercised. The Company's tax provision for the remainder of 2007 will depend primarily on the jurisdictional mix of pretax earnings.

The Company records a valuation allowance to reduce its deferred tax assets to the amount it believes is more likely than not to be realized. In assessing the need for a valuation allowance, we have considered all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. As a result of our analysis of all available evidence, which included twelve consecutive quarters of cumulative pre-tax profits and a projection of future income, it was considered more likely than not that our non stock option related deferred tax assets would be realized. The release of valuation allowance previously held against our deferred tax assets, results in a \$14.1 million tax benefit reflected in the Condensed Consolidated Statements of Operations and a \$2.3 million benefit recorded to goodwill. Additionally, in the quarter ended September 30, 2007, we completed an analysis of our inter-company transfer pricing retroactive to 2001 and based on this self-initiated review, we reallocated a portion of consolidated pre-tax income from our foreign operations to domestic operations, and utilized an additional \$10.4 million of deferred tax assets previously reserved. The remaining deferred tax assets subject to valuation allowance are related to stock option deductions, the benefit of which will be recorded in stockholders' equity when realized. These remaining deferred tax assets will not provide a reduction in the Company's effective tax rate.

The Company recorded an income tax provision of \$1.3 million and \$3.8 million for the three and nine months ended September 30, 2006, respectively, which represents primarily income and withholding taxes attributable to foreign operations, and federal and state minimum taxes.

The Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainties in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48), effective January 1, 2007. FIN 48 requires the Company to recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The cumulative effect of adopting FIN 48, if any, is required to be recorded in retained earnings and other accounts as applicable. No material cumulative adjustment to retained earnings was required upon the adoption of FIN 48. As of January 1, 2007, the Company had approximately \$6.3 million of unrecognized tax benefits, substantially all of which would, if recognized, affect the Company's tax expense. This amount differed from the \$4.2 million originally disclosed upon the adoption of FIN 48. The difference of \$2.1 million was due to uncertain tax benefits which were subject to full valuation allowance in the deferred tax asset account. During the nine months ended September 30, 2007, the Company recorded additional unrecognized tax benefit of \$0.4 million. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties at January 1, 2007 were \$177,000. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

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The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. We are currently under examination by the Internal Revenue Service for fiscal year 2005. Due to net operating loss carry-forwards, substantially all of the Company's tax years, from 1995 through 2006, remain open to tax examination. Most state and foreign jurisdictions have three or four open tax years at any point in time. Although the outcome of any tax audit is uncertain, we believe we have adequately provided in our financial statements for any additional taxes that we may be required to pay as a result of such examinations. If the payment ultimately proves to be unnecessary, the reversal of these tax liabilities would result in tax benefits being recognized in the period we determine such liabilities are no longer necessary. However, if an ultimate tax assessment exceeds our estimate of tax liabilities, an additional tax provision will be recorded.

Table of Contents**INFORMATICA CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 10. Stock Repurchases**

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

In April 2006, Informatica's Board of Directors authorized a stock repurchase program for a one-year period for up to \$30 million of our common stock. As of April 30, 2007, the Company repurchased 2,238,000 shares at a cost of \$30 million, including 105,000 shares during the three months ended March 31, 2007.

In April 2007, Informatica's Board of Directors authorized a stock repurchase program for up to an additional \$50 million of our common stock. During the three months ended September 30, 2007 the Company repurchased 1,050,000 shares at a cost of \$14.6 million. During the six months ended September 30, 2007, the Company repurchased 1,357,000 shares at a cost of \$19.2 million.

Note 11. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. As a result of SFAS 157, there will be a common definition of fair value to be used throughout GAAP. SFAS 157 is effective for fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), including an Amendment of FASB Statement No. 115, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in earnings. Statement No. 159 also establishes additional disclosure requirements. Statement No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts Statement No. 157.

On October 17, 2007, the FASB discussed the effective dates of SFAS 157 and SFAS 159, and decided against a blanket deferral of the effective dates of those statements. However, the FASB stated that it would consider a potential deferral (1) on the application of SFAS 157 to the fair value measurement of non-financial assets and liabilities, and (2) of SFAS 157's effective date for private companies and, as yet to be defined, small public companies. The FASB staff will present its recommendations on the two above-mentioned items at a future FASB meeting. The Company is currently evaluating the accounting and disclosure requirements of SFAS 157 and SFAS 159, and will adopt these two statements as required.

Note 12. Significant Customer Information and Segment Reporting

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

The Company is organized and operates in a single segment: the design, development, marketing, and sales of software solutions. The Company's chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

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The following table presents geographic information (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
North America	\$ 61,345	\$ 53,438	\$ 192,147	\$ 163,324
Europe	27,104	20,058	68,179	56,236
Other	7,554	5,434	17,053	13,237
	\$ 96,003	\$ 78,930	\$ 277,379	\$ 232,797

	September 30, 2007	December 31, 2006
Long-lived assets (excluding assets not allocated):		
North America	\$ 21,060	\$ 27,995
Europe	1,853	1,984
Other	1,517	1,023
	\$ 24,430	\$ 31,002

No customer accounted for more than 10% of the Company's total revenues in the three and nine months ended September 30, 2007 and 2006. At September 30, 2007 and 2006, no single customer accounted for more than 10% of the accounts receivable balance.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the federal securities laws, particularly statements referencing our expectations relating to license revenues, service revenues, deferred revenues, cost of license revenues as a percentage of license revenues, cost of service revenues as a percentage of service revenues, and operating expenses as a percentage of total revenues; the recording of amortization of acquired technology, share-based payments; provision for income taxes; the integration of our acquisitions of Similarity Systems Limited (Similarity) and Itemfield, Inc. (Itemfield); deferred taxes; international expansion; the ability of our products to meet customer demand; continuing impacts from our 2004 and 2001 Restructuring Plans; the sufficiency of our cash balances and cash flows for the next 12 months; our stock repurchase program; 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; 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 negative thereof, or other 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 under Part II, Item 1A. Risk Factors. All forward-looking statements and reasons why results may differ included in this Report are made as of the date hereof, and we assume no obligation to update any such forward-looking statements or reasons why actual results may differ.

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

Overview

We are a leading provider of enterprise data integration software. We generate revenues from sales of software licenses for our enterprise data integration software products and from sales of services, which consist of maintenance, consulting, and education services.

We receive revenues from licensing our products under perpetual licenses directly to end users and indirectly through resellers, distributors, and OEMs in the United States and internationally. We also receive a small amount of revenues under subscription-based licenses from partners making our technology available to companies as part of their own on-demand offerings. Most of our international sales have been in Europe, and revenue outside of Europe and North America has comprised 7% or less of total consolidated revenues during the last three years. 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 license our software and provide services to many industry sectors, including, but not limited to, energy and utilities, financial services, insurance, government and public sector, healthcare, high-technology, manufacturing, retail, services, telecommunications, and transportation.

For the third quarter of 2007, our total revenues grew 22% to \$96.0 million compared to the third quarter of 2006. License revenues increased 22% year-over-year, primarily as a result of increases in the volume of our transactions, increased sales productivity, and an increase in international revenues. Services revenues increased 21% due to increased contribution from the new releases of our existing products that increased our training and consulting revenues by 29%, coupled with an increase of 18% in maintenance revenues driven by strong renewals from our expanding customer base.

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

Competition: Inherent in our industry are risks arising from competition with existing software solutions, technological advances from other vendors, and the perception of cost savings by solving data integration challenges through customer hand-coded development resources. Our prospective customers may view these alternative solutions as more attractive than our offerings. Additionally, the consolidation activity in our industry

(including Business Objects' acquisition of FirstLogic, Oracle's acquisition of Sunopsis and Hyperion Solutions, IBM's acquisition of DataMirror, SAP's recently announced agreement to acquire Business Objects, and Oracle's recent offer to acquire BEA Systems) could pose challenges as competitors could potentially offer our prospective customers a broader suite of software products or solutions.

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New Product Introductions: To address the expanding data integration and data integrity needs of our customers and prospective customers, we continue to introduce new products and technology enhancements on a regular basis. For example, in May 2006, we delivered the generally available release of PowerCenter 8. In September 2006, we delivered general availability of the PowerCenter Connect for salesforce.com to enable joint customers to integrate data managed by salesforce.com. Also, in November 2006, we announced general availability of new versions of Informatica Data Quality and Informatica Data Explorer that deliver advanced data quality capabilities. In March 2007, we launched Informatica On Demand Data Replicator, a multi-tenant, on-demand service for cross-enterprise data integration. In September 2007, we announced a new Informatica On Demand service: Informatica Data Quality Assessment for salesforce.com which uses pre-defined rules to identify missing, invalid and duplicate data. New product introductions and/or enhancements have inherent risks including, but not limited to, product availability, product quality and interoperability, and customer adoption or the delay in customer purchases. Given the risks and new nature of the products, we cannot predict their impact on our overall sales and revenues.

Quarterly and Seasonal Fluctuations: Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends and are likely to do so in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks 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 revenue and order backlog, and we have generally had weaker demand for our software products and services in the first and third quarters, although this was less so this quarter than historically.

To address these potential risks, we have focused on a number of key initiatives, including the strengthening of our partnerships, the broadening of our distribution capability worldwide, and the targeting of our sales force and distribution channel on new products. In April 2007, we established business units for three key solutions: data integration, data quality, and on-demand. This initiative closely aligns our marketing resources with product development.

We are concentrating on maintaining and strengthening our relationships with our existing strategic partners and building relationships with additional strategic partners. These partners include systems integrators, resellers and distributors, and strategic technology partners, including enterprise application providers, database vendors, and enterprise information integration vendors, in the United States and internationally. In June 2007, we signed OEM agreements with SAP and other vendors. We recently entered into an OEM and reseller agreement with Cognos. These are in addition to our global OEM partnerships with Oracle (Hyperion Solutions and Siebel), and our partnership with salesforce.com. See Risk Factors *We rely on our relationships with our strategic partners. If we do not maintain and strengthen these relationships, our ability to generate revenue and control expenses could be adversely affected, which could cause a decline in the price of our common stock* in Part II, Item 1A. Additionally, our alliance managers have developed and continue to add new strategic partnerships with vendors in the on-demand market. In late 2006, we formalized our relationship with Deloitte Consulting and jointly went to market with its Enterprise Risk Services practice and our Data Quality products.

We have also broadened our distribution efforts. During the first three quarters of 2007, we continued to expand our sales both in terms of selling data warehouse products to the enterprise level and of selling more strategic data integration solutions beyond data warehousing, including data quality, data migrations, data consolidations, data synchronizations, data hubs, and cross-enterprise data integration to our customers enterprise architects and chief information officers. We have also expanded our international sales presence by opening new offices and increasing headcount. This included opening sales offices in Brazil, China, India, Japan, South Korea, and Taiwan in 2005 and 2006. We also established training partnerships in late 2006 in India, Latin America, and the United States to provide hands-on product training for customers and partners. As the result of this international expansion, as well as the increase in our direct sales headcount in the United States during 2005, our sales and marketing expenses have increased accordingly during 2005, 2006, and 2007. We expect these investments to result in increased revenues and productivity and ultimately higher profitability. However, if we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do

not achieve increases in 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. We have experienced some increases in revenues and sales productivity in the United States in the past few years. While in the past year, we have experienced increases in revenues and sales productivity internationally, we have not yet achieved the same level of sales productivity internationally as domestically.

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

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements, we make assumptions, judgments, and estimates that can have a significant impact on amounts reported in our condensed consolidated financial statements. We base our assumptions, judgments, and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis we evaluate our assumptions, judgments, and estimates and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the assumptions, judgments, and estimates involved in the accounting for revenue recognition, facilities restructuring charges, income taxes, accounting for impairment of goodwill, acquisitions, and share-based payments have the greatest potential impact on our condensed consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the critical accounting estimates associated with these policies. Historically, our assumptions, judgments, and estimates relative to our critical accounting policies have not differed materially from actual results. For further information on our significant accounting policies, see the discussion in Note 1, *Summary of Significant Accounting Policies*, and Note 11, *Recent Accounting Pronouncements*, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Revenue Recognition

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

We derive revenues from software license fees, maintenance fees (which entitle the customer to receive product support and unspecified software updates), and professional services, consisting of consulting and education services. We follow the appropriate revenue recognition rules for each type of revenue. The basis for recognizing software license revenue is determined by the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2 *Software Revenue Recognition*, together with other authoritative literature. For other authoritative literature, see the subsection *Revenue Recognition* in Note 1, *Summary of Significant Accounting Policies*, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. Substantially all of our software licenses are perpetual licenses under which the customer acquires the perpetual right to use the software as provided and subject to the conditions of the license agreement. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable. In applying these criteria to revenue transactions, we must exercise judgment and use estimates to determine the amount of software, maintenance, and professional services revenue to be recognized each period.

Our judgment in determining the collectibility of amounts due from our customers impacts the timing of revenue recognition. We assess credit worthiness and collectibility and when a customer is not deemed credit worthy, revenue is recognized when payment is received.

We assess whether fees are fixed or determinable prior to recognizing revenue. We must make interpretations of our customer contracts and use estimates and judgments in determining if the fees associated with a license arrangement are fixed or determinable. We consider factors including extended payment terms, financing arrangements, the category of customer (end-user customer or reseller), rights of return or refund, and our history of enforcing the terms and conditions of customer contracts. If the fee due from a customer is not fixed or determinable due to extended payment terms, revenue is recognized when payment becomes due or upon cash receipt, whichever is

earlier. If we determine that a fee due from a reseller is not fixed or determinable upon shipment to the reseller, we defer the revenue until the reseller provides us with evidence of sell through to an end-user customer and/or upon cash receipt.

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

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

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

Facilities Restructuring Charges

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

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

If we determine that there is a change in the estimated sublease rates or in the expected time it will take us to sublease our vacant space, we may incur additional restructuring charges in the future and our cash position could be adversely affected. See Note 6, *Facilities Restructuring Charges*, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. Future adjustments to the charges could result from a change in the time period that the buildings will be vacant, expected sublease rates, expected sublease terms, and the expected time it will take to sublease. We will periodically assess the need to update the original restructuring charges based on current real estate market information, trend analysis and executed sublease agreements.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes*. Under this method, income tax expenses or benefits are recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred tax assets and liabilities are based on provisions of currently enacted tax laws. The effects of future changes in tax laws or rates are not contemplated.

As part of the process of preparing consolidated financial statements, we are required to estimate our income taxes and tax contingencies in each of the tax jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing treatment of items that may create net deferred tax assets and liabilities.

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We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we have considered our historical levels of income, expectations of future taxable income and ongoing tax planning strategies.

We assess the likelihood that we will be able to recover our deferred tax assets. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. As a result of our analysis of all available evidence at September 30, 2007, including twelve consecutive quarters of cumulative pre-tax profit and a projection of future income, it was considered more likely than not that our non stock option related deferred tax assets would be realized. The release of valuation allowance results in a \$14.1 million tax benefit recorded to the income statement and a \$2.3 million benefit recorded to goodwill. The remaining deferred tax assets subject to valuation allowance are related to stock option deductions, the benefit of which will be recorded in stockholders' equity when realized. These deferred tax assets will not provide a reduction in the Company's effective tax rate.

As of September 30, 2007, we believed that the amount of the deferred tax assets recorded on our balance sheet as a result of the release of valuation allowance during the third quarter of calendar year 2007 would ultimately be recovered. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determine that it is more likely than not that we cannot recover our deferred tax assets.

Effective January 1, 2007, the Company adopted Financial Accounting Standard Board Interpretation No. 48, *Accounting for Uncertainties in Income Taxes – an Interpretation of FASB Statement 109* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. No material cumulative adjustment to retained earnings was required upon our adoption of FIN 48. As a result of FIN 48, we could have greater volatility in our effective tax rate in the future.

Accounting for Impairment of Goodwill

We assess goodwill for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires that goodwill be tested for impairment at the reporting unit level (*Reporting Unit*) at least annually and more frequently upon the occurrence of certain events, as defined by SFAS No. 142. Consistent with our determination that we have only one reporting segment, we have determined that there is only one *Reporting Unit*. Goodwill was tested for impairment in our annual impairment tests on October 31 in each of the years in 2006, 2005, and 2004 using the two-step process required by SFAS No. 142. First, we reviewed the carrying amount of the Reporting Unit compared to the fair value of the Reporting Unit based on quoted market prices of our common stock. If such comparison reflected potential impairment, we would then prepare the discounted cash flow analyses. Such analyses are based on cash flow assumptions that are consistent with the plans and estimates being used to manage the business. An excess carrying value compared to fair value would indicate that goodwill may be impaired. Finally, if we determined that goodwill may be impaired, then we would compare the implied fair value of the goodwill, as defined by SFAS No. 142, to its carrying amount to determine the impairment loss, if any.

Based on these estimates, we determined in our annual impairment tests as of the 31st of October of each year that the fair value of the Reporting Unit exceeded the carrying amount and, accordingly, goodwill was not impaired. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including such external factors as industry and economic trends and such internal factors as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. Accordingly, future changes in market capitalization or estimates used in discounted cash flows analyses could result in significantly different fair values of the Reporting Unit, which may impair goodwill.

Table of Contents***Acquisitions***

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as purchased in-process research and development (IPR&D) based on their estimated fair values. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. This valuation requires management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer contracts, customer lists, distribution agreements, and acquired developed technologies and patents; expected costs to develop the IPR&D into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in the combined company's product portfolio; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Share-Based Payments

We account for share-based payments related to share-based transactions in accordance with the provisions of SFAS No. 123(R). Under the fair value recognition provisions of SFAS No. 123(R), share-based payment is estimated at the grant date based on the fair value of the award and is recognized as an expense ratably over its requisite service period. Determining the appropriate fair value model and calculating the fair value of share-based awards requires judgment, including estimating stock price volatility, forfeiture rates, and expected life.

We have estimated the expected volatility as an input into the Black-Scholes-Merton valuation formula when assessing the fair value of options granted. Our current estimate of volatility was based upon a blend of average historical and market-based implied volatilities of our stock price. To the extent volatility of our stock price increases in the future, our estimates of the fair value of options granted in the future could increase, thereby increasing share-based payments in future periods. For instance, an estimate in volatility 10 percentage points higher would have resulted in a \$0.3 million increase in the fair value of options granted during the three months ended September 30, 2007. In addition, we apply an expected forfeiture rate when amortizing share-based payments. Our estimate of the forfeiture rate was based primarily upon historical experience of employee turnover. To the extent we revise this estimate in the future, our share-based payments could be materially impacted in the quarter of revision, as well as in following quarters. During the nine months ended September 30, 2007, we lowered our forfeiture rate from 16% to 13% primarily due to recent changes in historical employee turnover rates. As a result of this change, our share-based payments expense increased by approximately \$0.5 million for the nine months ended September 30, 2007. Our expected term of options granted was derived from the historical option exercises, post-vesting cancellations, and estimates concerning future exercises and cancellations for vested and unvested options that remain outstanding. We lowered our expected life estimate from 3.9 years (in 2006) to 3.3 years (in the first quarter of 2007). We expect this change to lower our share-based payments for the new grants subsequent to the above change by approximately 8% for the vesting duration (usually four years). We believe that the estimates that we have used for the calculation of the variables to arrive at share-based payments are accurate. We will, however, continue to monitor the historical performance of these variables and will modify our methodology and assumptions in the future as needed.

Recent Accounting Pronouncements

For recent accounting pronouncements see Note 11, *Recent Accounting Pronouncements*, of Notes to Condensed Consolidated Financial Statements under Part I, Item 1 of this Report.

Table of Contents**Results of Operations**

The following table presents certain financial data for the three and nine months ended September 30, 2007 and 2006 as a percentage of total revenues:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues:				
License	43%	43%	43%	44%
Service	57	57	57	56
Total revenues	100	100	100	100
Cost of revenues:				
License	1	1	1	2
Service	18	18	18	18
Amortization of acquired technology	1	1	1	
Total cost of revenues	20	20	20	20
Gross profit	80	80	80	80
Operating expenses:				
Research and development	18	18	19	18
Sales and marketing	40	43	41	43
General and administrative	9	9	9	9
Amortization of intangible assets				
Facilities restructuring charges	1	1	1	1
Purchased in-process research and development				1
Total operating expenses	68	71	70	72
Income from operations	12	9	10	8
Interest income	6	7	6	6
Interest expense	(2)	(2)	(2)	(2)
Other expense, net				
Income before provision for income taxes	16	14	14	12
Provision for income taxes	1	2	2	2
Net income	15%	12%	12%	10%

Revenues

Our total revenues increased to \$96.0 million for the three months ended September 30, 2007 from \$78.9 million for the three months ended September 30, 2006, representing an increase of \$17.1 million (or 22%). Total revenues increased to \$277.4 million for the nine months ended September 30, 2007 from \$232.8 million for the nine months ended September 30, 2006, representing an increase of \$44.6 million (or 19%).

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

	Three Months Ended September			Nine Months Ended September 30,		
	2007	30, 2006	Change	2007	2006	Change
License revenues	\$ 40,990	\$ 33,578	22%	\$ 120,390	\$ 103,233	17%
Service revenues:						
Maintenance	38,277	32,373	18%	109,838	91,779	20%
Consulting and education	16,736	12,979	29%	47,151	37,785	25%
Total service revenues	55,013	45,352	21%	156,989	129,564	21%
	\$ 96,003	\$ 78,930	22%	\$ 277,379	\$ 232,797	19%

Table of Contents***License Revenues***

Our license revenues increased to \$41.0 million (or 43% of total revenues) and \$120.4 million (or 43% of total revenues) for the three and nine months ended September 30, 2007, respectively, from \$33.6 million (or 43% of total revenues) and \$103.2 million (or 44% of total revenues) for the three and nine months ended September 30, 2006, respectively. The \$7.4 million (or 22%) increase for the three months ended September 30, 2007 and the \$17.2 million (or 17%) increase for the nine months ended September 30, 2007, compared to the same periods in 2006, were primarily due to an increase in the volume of transactions, improving sales productivity, and increased international sales.

The average transaction amount for orders greater than \$100,000 in the third quarter of 2007, including upgrades, increased to \$321,000 from \$284,000 in the third quarter of 2006. Further, we had five transactions of \$1.0 million or more in the third quarter of 2007, compared to four transactions of the same magnitude in the third quarter of 2006. The average transaction amount for orders greater than \$100,000 during the nine months ended September 30, 2007, including upgrades, increased to \$311,000 from \$308,000 for the comparable period in 2006. Further, we had sixteen transactions of \$1.0 million or more during the nine months ended September 30, 2007, compared to seventeen transactions of the same magnitude in the comparable period in 2006.

Services Revenues***Maintenance Revenues***

Maintenance revenues increased to \$38.3 million (or 40% of total revenues) for the three months ended September 30, 2007, compared to \$32.4 million (or 41% of total revenues) for the three months ended September 30, 2006. The \$5.9 million (or 18%) increase in the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to a continued growth of our customer base and continued high rates of customer retention. Maintenance revenues increased to \$109.8 million (or 40% of total revenues) for the nine months ended September 30, 2007, compared to \$91.8 million (or 39% of total revenues) for the nine months ended September 30, 2006. The \$18.0 million (or 20%) increase in the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to a continued growth of our customer base and continued high rates of customer retention.

We expect maintenance revenues to increase slightly from the first three quarters of 2007 for the fourth quarter of this year.

Consulting and Education Services Revenues

Consulting and education services revenues increased to \$16.7 million (or 17% of total revenues) for the three months ended September 30, 2007, compared to \$13.0 million (or 16% of total revenues) for the three months ended September 30, 2006. The \$3.7 million (or 29%) increase in the three months ended September 30, 2007, compared to the same period in 2006, was the result of a higher demand for our consulting and education services globally. Consulting and education services revenues increased to \$47.2 million (or 17% of total revenues) for the nine months ended September 30, 2007, compared to \$37.8 million (or 16% of total revenues) for the nine months ended September 30, 2006. The \$9.4 million (or 25%) increase in the nine months ended September 30, 2007, compared to the same period in 2006, was the result of a higher demand for our consulting and education services globally.

We expect revenues from consulting and education services to remain relatively consistent with or increase slightly from the first three quarters of 2007 for the fourth quarter of this year.

International Revenues

International revenues were \$34.7 million (or 36% of total revenues) for the three months ended September 30, 2007, compared to \$25.5 million (or 32% of total revenues) for the three months ended September 30, 2006. The \$9.2 million (or 36%) increase for the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to an increase in international license revenue as a result of a better overall economic environment internationally and expansion of our operations and improved sales productivity in Europe and Asia. International revenues were \$85.2 million (or 31% of total revenues) for the nine months ended September 30, 2007, compared to \$69.5 million (or 30% of total revenues) for the nine months ended September 30, 2006. The \$15.7 million (or 23%) increase for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to a better overall economic environment internationally, and increase in the value of foreign currencies compared to the

U.S. dollar, an improvement in our sales productivity, and better sales execution in Europe and Asia.

Table of Contents***Future Revenues (New Orders, Backlog, and Deferred Revenues)***

Our future revenues are dependent upon the following: (1) new orders received, shipped, and recognized in a given quarter and (2) our backlog and deferred revenues entering a given quarter. Our backlog consists primarily of product license orders that have not shipped as of the end of a given quarter and orders to certain distributors, resellers, and OEMs where revenue is recognized upon cash receipt. Our deferred revenues are primarily comprised of the following: (1) maintenance revenues that we recognize over the term of the contract, typically one year, (2) license product orders that have shipped but where the terms of the license agreement contain acceptance language or other terms that require that the license revenues be deferred until all revenue recognition criteria are met or recognized ratably over an extended period, and (3) consulting and education services revenues that have been prepaid but for which services have not yet been performed. We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. Aggregate backlog and deferred revenues at September 30, 2007, were approximately \$115.7 million, compared to \$93.3 million at September 30, 2006, and \$118.1 million at December 31, 2006.

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,		
	2007	2006	Change	2007	2006	Change
Cost of license revenues	\$ 770	\$ 898	(14)%	\$ 2,518	\$ 3,814	(34)%
Cost of service revenues	17,169	14,162	21%	50,428	42,346	19%
Amortization of acquired technology	726	549	32%	2,175	1,545	41%
Total cost of revenues	\$ 18,665	\$ 15,609	20%	\$ 55,121	\$ 47,705	16%
Cost of license revenues, as a percentage of license revenues	2%	3%	(1)%	2%	4%	(2)%
Cost of service revenues, as a percentage of service revenues	31%	31%	%	32%	33%	(1)%

Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of license revenues decreased to \$0.8 million (or 2% of license revenues) for the three months ended September 30, 2007 from \$0.9 million (or 3% of license revenues) for the three months ended September 30, 2006. The decrease of \$0.1 million (or 14%) in cost of license revenues for the three months ended September 30, 2007, compared to the same period in 2006, was due to the smaller proportion of royalty based products being shipped in the third quarter of 2007. Cost of license revenues decreased to \$2.5 million (or 2% of license revenues) for the nine months ended September 30, 2007 from \$3.8 million (or 4% of license revenues) for the nine months ended September 30, 2006. The decrease of \$1.3 million (or 34%) in cost of license revenues for the nine months ended September 30, 2007, compared to the same period in 2006, was due to the smaller proportion of royalty based products being shipped during the nine months ended September 30, 2007.

We expect the cost of license revenues as a percentage of license revenues to be relatively consistent with the first three quarters of 2007 for the remainder of this year.

Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting, and education services revenues. Our cost of maintenance revenues consists primarily of costs associated with customer service personnel expenses and

royalty fees for maintenance related to third-party software providers. Cost of consulting revenues consists primarily of personnel costs and expenses incurred in providing consulting services at customers facilities. Cost of education services revenues consists primarily of the costs of providing training classes and materials at our headquarters, sales and training offices, and customer locations. Cost of service revenues increased to \$17.2 million (or 31% of service revenues) for the three months ended September 30, 2007 from \$14.2 million

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(or 31% of service revenues) for the three months ended September 30, 2006. The increase of \$3.0 million (or 21%) for the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to headcount growth in our consulting and educational services groups and higher subcontractor fees in the consulting services group. Cost of service revenues increased to \$50.4 million (or 32% of service revenues) for the nine months ended September 30, 2007 from \$42.3 million (or 33% of service revenues) for the nine months ended September 30, 2006. The increase of \$8.1 million (or 19%) for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to headcount growth in our consulting and educational services groups and higher subcontractor fees in the consulting services group.

We expect our cost of service revenues as a percentage of service revenues for the fourth quarter of 2007 to be relatively consistent with the first three quarters of 2007, or increase slightly from the current levels if the growth in our consulting and educational services is greater than that experienced by our maintenance business.

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			Nine Months Ended September		
	2007	30, 2006	Change	2007	30, 2006	Change
Amortization of acquired technology	\$ 726	\$ 549	32%	\$ 2,175	\$ 1,545	41%

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology increased to \$0.7 million for the three months ended September 30, 2007, compared to \$0.5 million for the three months ended September 30, 2006. The increase of \$0.2 million (or 32%) in the three months ended September 30, 2007, compared to the same period in 2006, was a result of amortization of certain technologies that we acquired in December 2006 in connection with the Itemfield acquisition. Amortization of acquired technology increased to \$2.2 million for the nine months ended September 30, 2007, compared to \$1.5 million for the nine months ended September 30, 2006. The increase of \$0.7 million (or 41%) in the nine months ended September 30, 2007, compared to the same period in 2006, was due to the amortization of certain technologies that we acquired in December 2006 in connection with the Itemfield acquisition.

We expect amortization of other acquired technology to be approximately \$0.6 million for the fourth quarter of 2007.

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			Nine Months Ended September		
	2007	30, 2006	Change	2007	30, 2006	Change
Research and development	\$ 17,195	\$ 13,826	24%	\$ 52,168	\$ 41,069	27%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, consulting services, facilities, and related overhead costs associated with the development of new products, the enhancement and localization of existing products, and quality assurance and development of documentation for our products. Research and development expenses increased to \$17.2 million (or 18% of total revenues) for the three months ended September 30, 2007, compared to \$13.8 million for the three months ended September 30, 2006 (or 18% of total revenues). The increase of \$3.4 million (or 24%) for the three months ended September 30, 2007, compared to the same period in 2006, was due to personnel-related costs including associated facilities costs, which increased by \$3.3 million and a \$0.6 million increase in consulting services offset by a \$0.9 million decrease in legal fees associated with the patent litigation. Research and development expenses increased to \$52.2 million (or 19% of

total revenues) for the nine months ended September 30, 2007, compared to \$41.1 million for the nine months ended September 30, 2006 (or 18% of total revenues). The increase of \$11.1 million (or 27%) for the nine months ended September 30, 2007, compared to the same period in 2006, was due to personnel-related costs including associated facilities costs, which increased by \$8.0 million and a \$1.6 million increase in consulting services. Legal fees associated with patent litigation increased modestly by \$0.2 million. All of our software development costs have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.

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We expect the research and development expenses as a percentage of total revenues to decrease slightly for the fourth quarter of 2007, compared to the first three quarters of 2007.

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,		
	2007	2006	Change	2007	2006	Change
Sales and marketing	\$ 38,410	\$ 33,825	14%	\$ 112,624	\$ 100,790	12%

Our sales and marketing expenses consist primarily of personnel costs, including commissions, as well as costs of public relations, seminars, marketing programs, lead generation, travel, and trade shows. Sales and marketing expenses increased to \$38.4 million (or 40% of total revenues) for the three months ended September 30, 2007 from \$33.8 million (or 43% of total revenues) for the three months ended September 30, 2006. The decline of the sales and marketing expenses as a percentage of total revenues for the three months ended September 30, 2007 from nine months ended September 30, 2007 was mainly due to improved sales productivity. The increase of \$4.6 million (or 14%) for the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to a \$3.8 million increase in personnel related costs (including sales commissions), as a result of an increase in headcount from 411 at September 30, 2006 to 463 at September 30, 2007. Marketing costs increased by \$0.2 million primarily related to spending on marketing programs. Sales and marketing expenses increased to \$112.6 million (or 41% of total revenues) for the nine months ended September 30, 2007 from \$100.8 million (or 43% of total revenues) for the nine months ended September 30, 2006. The increase of \$11.8 million (or 12%) for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to a \$9.2 million increase in personnel-related costs (including sales commissions) due to an increase in headcount, a \$0.9 million increase in share-based payments, and a \$0.3 million increase in outside services.

We expect sales and marketing expenses as a percentage of total revenues to remain relatively consistent for the fourth quarter of 2007, compared with the first three quarters of 2007.

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,		
	2007	2006	Change	2007	2006	Change
General and administrative	\$ 9,025	\$ 6,997	29%	\$ 25,884	\$ 20,575	26%

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, and accounting services. General and administrative expenses increased to \$9.0 million (or 9% of total revenues) for the three months ended September 30, 2007, compared to \$7.0 million (or 9% of total revenues) for the three months ended September 30, 2006. The increase of \$2.0 million (or 29%) for the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to an increase of \$1.2 million in personnel related costs as well as an increase of \$0.8 million in professional service expenses. General and administrative expenses increased to \$25.9 million (or 9% of total revenues) for the nine months ended September 30, 2007, compared to \$20.6 million (or 9% of total revenues) for the nine months ended September 30, 2006. The increase of \$5.3 million (or 26%) for the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to an increase of \$2.6 million in personnel related costs as well as an increase of \$2.1 million in professional service expenses.

We expect general and administrative expenses, as a percentage of total revenues, to remain relatively consistent or decrease slightly for the fourth quarter of 2007, compared with the first three quarters of 2007.

Table of Contents***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			Nine Months Ended September		
	2007	30, 2006	Change	2007	30, 2006	Change
Amortization of intangible assets	\$ 361	\$ 162	123%	\$ 1,079	\$ 454	138%

Amortization of intangible assets is the amortization of customer relationships acquired, trade names, and covenants not to compete through business acquisitions. Amortization of intangible assets increased to \$0.4 million for the three months ended September 30, 2007 from \$0.2 million for the three months ended September 30, 2006. The increase of \$0.2 million in the three months ended September 30, 2007 compared to the same period in 2006 was due to certain customer relationships acquired in December 2006 because of the Itemfield acquisition. Amortization of intangible assets increased to \$1.1 million for the nine months ended September 30, 2007 from \$0.5 million for the nine months ended September 30, 2006. The increase of \$0.6 million during the nine months ended September 30, 2007, compared to the same period in 2006, was due to certain customer relationships acquired in December 2006 because of the Itemfield acquisition.

We expect amortization of the remaining intangible assets to be approximately \$0.4 million for the fourth quarter of 2007.

Facilities Restructuring Charges

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

	Three Months Ended September			Nine Months Ended September		
	2007	30, 2006	Change	2007	30, 2006	Change
Facilities restructuring charges	\$ 1,003	\$ 1,108	(9)%	\$ 3,078	\$ 3,386	(9)%

For the three and nine months ended September 30, 2007, we recorded \$1.0 million and \$3.1 million of restructuring charges from accretion charges related to the 2004 Restructuring Plan, respectively. For the three months ended September 30, 2006, we recorded \$1.1 million of restructuring charges from accretion charges related to the 2004 Restructuring Plan. For the nine months ended September 30, 2006, we recorded \$3.4 million of restructuring charges, which included \$3.3 million of accretion charges, and a \$0.1 million adjustment related to the 2004 Restructuring Plan.

As of September 30, 2007, \$75.7 million of total lease termination costs, net of actual and expected sublease income, less broker commissions and tenant improvement costs related to facilities to be subleased, was included in accrued restructuring charges and is expected to be paid by 2013.

2004 Restructuring Plan

Net cash payments related to the consolidation of excess facilities under the 2004 Restructuring Plan amounted to \$3.0 million and \$2.7 million for the three months ended September 30, 2007 and 2006, respectively, and \$9.0 million and \$7.1 million for the nine months ended September 30, 2007 and 2006, respectively. Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2007 if there are changes to the time period that facilities are expected to be vacant or if the actual sublease income differs from our current estimates.

2001 Restructuring Plan

Net cash payments related to the consolidation of excess facilities under the 2001 Restructuring Plan amounted to \$0.4 million and \$1.0 million for the three months ended September 30, 2007 and 2006, respectively, and \$2.0 million and \$3.1 million for the nine months ended September 30, 2007 and 2006, respectively. Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2007 if there are changes to the

time period that facilities are vacant or the actual sublease income is different from current estimates.

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Our results of operations have been positively affected since 2004 by a significant decrease in rent expense and decreases to non-cash depreciation and amortization expense for the leasehold improvements and equipment written off. These combined savings were approximately \$10 to \$11 million annually compared to 2004, after accretion charges, and we anticipate that they will continue in the remainder of 2007, 2008, and 2009.

In addition, we will continue to evaluate our current facilities requirements to identify facilities that are in excess of our current and estimated future needs. We will also evaluate the assumptions related to estimated future sublease income for excess facilities. Accordingly, any changes to these estimates of excess facilities costs could result in additional charges that could materially affect our consolidated financial position and results of operations. See Note 6, *Facilities Restructuring Charges*, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Purchased In-Process Research and Development

During the nine months ended September 30, 2006, in conjunction with our acquisition of Similarity, we recorded in-process research and development charges of \$1.3 million. The in-process research and development charges 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. The purchase price allocated to in-process research and development was determined, in part, by a third-party appraiser through established valuation techniques. We may further incur in-process research and development expenses in the future if we make additional acquisitions.

Interest Income, Expense and Other

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

	Three Months Ended September			Nine Months Ended September		
	2007	2006	Change	2007	2006	Change
Interest income	\$ 5,651	\$ 5,325	6%	\$ 16,071	\$ 12,840	25%
Interest expense	(1,794)	(1,813)	(1)%	(5,394)	(3,979)	36%
Other expense, net	(46)	(268)	(83)%	(350)	(221)	58%
	\$ 3,811	\$ 3,244	17%	\$ 10,327	\$ 8,640	20%

Interest income, interest expense and other expense consist primarily of interest income earned on our cash, cash equivalents, short-term investments, and restricted cash; interest expense; and gains and losses on foreign exchange transactions. The increase of \$0.6 million (or 17%) in the three months ended September 30, 2007, compared to the same period in 2006, was primarily due to a \$0.3 million increase in interest income received from higher investment yields and interest on the proceeds from the Notes (as defined below), and a \$0.3 million increase in foreign exchange gains. The increase of \$1.7 million (or 20%) in the nine months ended September 30, 2007, compared to the same period in 2006, was primarily due to a \$3.2 million increase in interest income received from higher investment yields and interest on the proceeds from the Notes, which was partially offset by an increase of \$1.4 million in interest expense and related costs on the Notes. Due to recent declines in the U.S. interest rates, as our investment portfolios come to maturity, we will more likely to reinvest these funds in lower yielding investments, which would in turn negatively impact our interest income in the future periods.

We currently do not engage in any foreign currency hedging activities and, therefore, are susceptible to fluctuations in foreign exchange gains or losses in our results of operations in future reporting periods.

Table of Contents**Income Tax Provision**

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

	Three Months Ended September			Nine Months Ended September 30,		
	2007	30, 2006	Change	2007	2006	Change
Provision for income taxes	\$ 709	\$ 1,263	(44)%	\$ 3,756	\$ 3,837	(2)%
Effective tax rate	4.7%	11.9%	(7.2)%	10.0%	14.7%	(4.7)%

Prior to this quarter, Informatica's effective tax rate was primarily based on federal alternative minimum taxes, state minimum taxes, and income and withholding taxes attributable to foreign operations. Starting in the quarter ended September 30, 2007, Informatica's effective tax rate differs from the U.S. federal statutory rate of 35%, primarily due to the impact of non-deductible stock based compensation charges, release of the valuation allowance, and the tax rate benefit of certain earnings from Informatica's operations in lower-tax jurisdictions throughout the world for which the Company has not provided U.S. taxes because we intend to indefinitely reinvest such earnings outside the United States. During the quarter ended September 30, 2007, the Company also recorded a discrete charge of \$2.5 million due to provision to return true up, certain transfer pricing adjustments, netted with the discrete benefit related to stock options currently exercised.

We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we have considered all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. As a result of our analysis of all available evidence, which included twelve consecutive quarters of cumulative pre-tax profits and a projection of future income, it was considered more likely than not that our non stock option related deferred tax assets would be realized. The release of valuation allowance previously held against our deferred tax assets, results in a \$14.1 million tax benefit reflected in the Condensed Consolidated Statements of Operations and a \$2.3 million benefit recorded to goodwill. Additionally, in the quarter ended September 30, 2007, we completed an analysis of our inter-company transfer pricing retroactive to 2001 and based on this self-initiated review, we reallocated a portion of consolidated pre-tax income from our foreign operations to domestic operations, and utilized an additional \$10.4 million of deferred tax assets previously reserved. The remaining deferred tax assets subject to valuation allowance are related to stock option deductions, the benefit of which will be recorded in stockholders' equity when realized. These remaining deferred tax assets will not provide a reduction in the Company's effective tax rate.

For the three and nine months ended September 30, 2006, we recorded an income tax provision at the effective tax rate of 11.9% and 14.7%, respectively. The \$1.3 million income tax provision for the three months ended September 30, 2006 includes \$1.9 million of federal alternative minimum taxes, state minimum taxes, income and withholding taxes attributable to foreign operations, offset by \$0.6 million benefit based on the filing of our 2005 federal income tax return. The expected tax provision derived from applying the federal statutory rate to our income before income taxes for the nine month period ended September 30, 2006 differed from the recorded income tax provision primarily due to the reversal of a portion of our valuation allowance to reflect the utilization of approximately \$6.8 million of tax attributes partially offset by foreign income and withholding taxes of \$1.3 million and state taxes of \$0.7 million.

Liquidity and Capital Resources

We have funded our operations primarily through cash flows from operations and public offerings of our common stock. As of September 30, 2007, we had \$448.0 million in available cash and cash equivalents and short-term investments and \$12.0 million of restricted cash under the terms of our Pacific Shores property leases and \$0.1 million restricted cash under the terms of our Australia lease. In January 2006, pursuant to a purchase agreement, Similarity stockholders received approximately \$48.3 million in cash and approximately 122,000 shares of Informatica common stock (which were fully vested but subject to escrow) valued on the date of close at \$1.6 million. In addition, the

options of Similarity option holders were assumed by Informatica and converted into options to purchase approximately 392,000 shares of Informatica common stock valued on the date of close at approximately \$5 million. In December 2006, pursuant to a merger agreement, Itemfield stockholders, non-employee option holders and certain employees were entitled to receive approximately \$52.1 million in cash and the outstanding options held by Itemfield employees were converted into approximately 158,000 shares of Informatica stock options with a fair value of \$1.9 million, of which we paid \$49.8 million in December 2006.

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Our primary sources of cash are the collection of accounts receivable from our customers and proceeds from the exercise of stock options and sales of our common stock under our employee stock purchase plan. Our uses of cash include payroll and payroll-related expenses and operating expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment, repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, and acquire businesses and technologies to expand our product offerings.

Operating Activities: Cash provided by operating activities for the nine months ended September 30, 2007 was \$42.8 million, representing an increase of \$2.4 million from the nine months ended September 30, 2006. This increase primarily resulted from \$11.7 million increase in net income, after adjusting for the following non-cash expenses: an increase in cash collections against accounts receivable, and an increase in accounts payable, offset by payments to reduce our accrual for excess facilities, excess tax benefits from share-based payments, and accrued liabilities. We were able to recognize for the first time the excess tax benefits from share-based payments for \$4.1 million during the three months ended September 30, 2007. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We were also able to release \$14.1 million of our valuation allowance that is not related to stock options during the three months ended September 30, 2007, and as a result recorded for the first time deferred assets of \$11.6 million. We made cash payments for taxes in different jurisdictions for \$8.8 million during the nine months ended September 30, 2007. Our Days Sales Outstanding in accounts receivable decreased slightly from 56 days at September 30, 2006 to 54 days at September 30, 2007. Cash provided by operating activities for the nine months ended September 30, 2006 was \$40.4 million and primarily resulted from our net income, after adjusting for non-cash expenses, an increase in cash collections against accounts receivable, offset by payments against accounts payable and accrued liabilities. Our operating cash flows will also be impacted in the future by the timing of payments to our vendors and payments for taxes.

Investing Activities: We acquire property and equipment in the normal course of our business. The amount and timing of these purchases and the related cash outflows in future periods depend on a number of factors, including the hiring of employees, the rate of upgrade of computer hardware and software used in our business, as well as our business outlook. We have classified our investment portfolio as available for sale, and our investment objectives are to preserve principal and provide liquidity while maximizing yields without significantly increasing risk. We may sell an investment at any time if the quality rating of the investment declines, the yield on the investment is no longer attractive, or we need additional cash. Since we invest only in investment securities that are highly liquid with a ready market, we believe that the purchase, maturity, or sale of our investments has no material impact on our overall liquidity. We have used cash to acquire businesses and technologies that enhance and expand our product offerings, and we anticipate that we will continue to do so in the future. The nature of these transactions makes it difficult to predict the amount and timing of such cash requirements.

Financing Activities: We receive cash from the exercise of common stock options and the sale of common stock under our employee stock purchase plan (ESPP). Net cash provided by financing activities for the nine months ended September 30, 2007 was \$5.9 million due to the issuance of common stock to option holders and to participants of our ESPP program for \$22.4 million, and \$4.1 million of excess tax benefits from share-based payments which were partially offset by a \$20.6 million repurchase and retirement of common stock. Net cash provided by financing activities for the nine months ended September 30, 2006 was \$179.8 million including issuance of convertible debt for \$230 million and the issuance of common stock to option holders and participants of our ESPP program for \$23.0 million offset by a \$66.9 million repurchase and retirement of common stock and a \$6.2 million payment of debt issuance costs. Although we expect to continue to receive some proceeds from the issuance of common stock to option holders and participants of ESPP in future periods, the timing and amount of such proceeds are difficult to predict and are contingent on a number of factors, including the price of our common stock, the number of employees participating in our stock option plans and our employee stock purchase plan, and overall market conditions.

In March 2006, we issued and sold convertible senior notes with an aggregate principal amount of \$230 million due in 2026 (Notes). We used approximately \$50 million of the net proceeds from the offering to fund the purchase of 3,232,000 shares of our common stock concurrently with the offering of the Notes. We intend to use the balance of the net proceeds for working capital and general corporate purposes, which may include the acquisition of businesses,

products, product rights or technologies, strategic investments, or additional purchases of common stock.

In April 2006, our Board of Directors authorized and announced a stock repurchase program of up to \$30 million of our common stock until April 2007. As of April 30, 2007, we repurchased 2,238,000 shares of our common stock for \$30 million. In April 2007, our Board of Directors authorized a stock repurchase program for up to an additional \$50 million of our common stock. During the six months ended September 30, 2007, we repurchased 1,357,000 shares of our common stock for \$19.2 million. One purpose of the program is to partially offset the otherwise dilutive impact of stock option exercise activity. The number of shares to be purchased and

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the timing of purchases are based on several factors, including the price of our common stock, general business and market conditions, and other investment opportunities. These repurchased shares will be retired and reclassified as authorized and unissued shares of common stock. See Part II, Item 2 of this Report for more information regarding the stock repurchase program. The timing and terms of the transactions will depend on market conditions, our liquidity, and other considerations.

We believe that our cash balances and the cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Given our cash balances, it is less likely but still possible that we may require or desire additional funds for purposes, such as acquisitions, and may raise such additional funds through public or private equity or debt financing or from other sources. We may not be able to obtain adequate or favorable financing at that time, and any financing we obtain might be dilutive to our stockholders.

Letters of Credit

A financial institution has issued a \$12.0 million letter of credit which requires us to maintain certificates of deposit as collateral until the leases expire in 2013. This letter of credit is for our former corporate headquarters leases at the Pacific Shores Center in Redwood City, California. In May 2007, another financial institution issued a \$0.1 million letter of credit for our Australia lease. These certificates of deposit are classified as long-term restricted cash on our condensed consolidated balance sheet. The letters of credit of \$12.0 million and \$0.1 million currently bear interest of 3.6% and 1.7%, respectively. There are no financial covenant requirements under our letters of credit.

Contractual Obligations

The following table summarizes our significant contractual obligations, including future minimum lease payments as of September 30, 2007, under non-cancelable operating leases with original terms in excess of one year, and the effect of such obligations on our liquidity and cash flows in the future periods (in thousands):

	Total	Payment Due by Period			
		Remaining 2007	2008 and 2009	2010 and 2011	2012 and Beyond
Operating lease obligations:					
Operating lease payments	\$ 120,307	\$ 5,244	\$ 44,455	\$ 40,249	\$ 30,359
Future sublease income	(10,934)	(704)	(4,344)	(2,217)	(3,669)
Net operating lease obligations	109,373	4,540	40,111	38,032	26,690
Debt obligations:					
Principal payments *	230,000				230,000
Interest payments	127,650		13,800	13,800	100,050
Other obligations **	750	150	600		
	\$ 467,773	\$ 4,690	\$ 54,511	\$ 51,832	\$ 356,740

* Holders of the Notes may require us to repurchase all or a portion of their Notes at a purchase price in cash equal to the full principle amount of the

Notes plus any accrued and unpaid interest on March 15, 2011, March 15, 2016, and March 15, 2021, or upon the occurrence of certain events including a change in control. We have the right to redeem some or all of the Notes after March 15, 2011.

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

Our contractual obligations for 2007 include the lease term for our headquarters office in Redwood City, California, which is from December 15, 2004 to December 31, 2010. Minimum contractual lease payments are \$0.5 million for the remainder of 2007, and \$3.7 million, \$4.0 million, and \$4.2 million for the years ending December 31, 2008, 2009 and 2010, respectively.

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

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

Operating Leases

We lease certain office facilities and equipment under non-cancelable operating leases. During 2004, 2002, and 2001, we recorded restructuring charges related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas. Operating lease payments in the table above include approximately \$95.6 million, net of actual sublease income, for operating lease commitments for those facilities that are included in restructuring charges. See Note 6, *Facilities Restructuring Charges* and Note 8, *Commitments and Contingencies*, in Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Of these future minimum lease payments, we have \$75.7 million recorded in the restructuring and excess facilities accrual at September 30, 2007. This accrual, in addition to minimum lease payments of \$95.6 million, includes estimated operating expenses of \$17.4 million, is net of estimated sublease income of \$24.8 million, and is net of the present value impact of \$12.5 million recorded in accordance with SFAS No. 146. Our sublease income assumptions are based on existing sublease agreements and current market conditions and other factors. Our estimates of sublease income for periods following the expiration of our sublease agreements may vary significantly from actual amounts realized depending, in part, on factors that may be beyond our control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases.

In relation to our excess facilities, we may decide to negotiate and enter into lease termination agreements, if and when the circumstances are appropriate. These lease termination agreements would likely require that a significant amount of the remaining future lease payments be paid at the time of execution of the agreement, but would release us from future lease payment obligations for the abandoned facility. The timing of a lease termination agreement and the corresponding payment could materially affect our cash flows in the period of payment.

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

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

In February 2000, we entered into two lease agreements for two buildings in Redwood City, California (our former corporate headquarters), which we occupied from August 2001 through December 2004. The lease expires in July 2013. As part of these agreements, we have purchased certificates of deposit totaling approximately \$12 million as a security deposit for lease payments.

Off-Balance-Sheet Arrangements

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

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

All market risk sensitive instruments were entered into for non-trading purposes. We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of changes in foreign exchange rates. As of September 30, 2007, we did not hold derivative financial instruments.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. Our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer, or type of investment. Our investments consist primarily of U.S. government notes and bonds, auction rate securities, corporate bonds, commercial paper, and municipal securities. All investments are carried at market value, which approximates cost.

For the nine months ended September 30, 2007, the average annual rate of return on our investments was 5.21%. Our cash equivalents and short-term investments are subject to interest rate risk and will decline in value if market interest rates increase. As of September 30, 2007, we had net unrealized gains of \$238,000 associated with these securities. If market interest rates were to increase immediately and uniformly by 100 basis points from levels as of September 30, 2007, the fair market value of the portfolio would decline by approximately \$2.0 million. We have the ability to hold our investments until maturity and, therefore, we would not necessarily expect to realize an adverse impact on income or cash flows.

Foreign Currency Risk

We market and sell our software and services through our direct sales force and indirect channel partners in North America, Europe, Asia-Pacific, and Latin America. Accordingly, we are subject to exposure from adverse movements in foreign currency exchange rates. For the nine months ended September 30, 2007, the effect of changes in foreign currency exchange rates on revenues and operating expenses has not been material. Operating expenses incurred by our foreign subsidiaries are denominated primarily in local currencies. We currently do not use financial instruments to hedge these operating expenses. We will continue to assess the need to utilize financial instruments to hedge currency exposures on an ongoing basis.

The functional currencies of our foreign subsidiaries are their respective local currency, except for Informatica Cayman Ltd., which is in euros. Our exposure to foreign exchange risk is related to the magnitude of foreign net profits and losses denominated in foreign currencies, in particular the euro and British pound, as well as our net position of monetary assets and monetary liabilities in those foreign currencies. These exposures have the potential to produce either gains or losses in our consolidated operating results. Our foreign operations, however, in most instances act as a natural hedge since both operating expenses as well as revenues are generally denominated in their respective local currencies. In these instances, although an unfavorable change in the exchange rate of foreign currencies against the U.S. dollar will result in lower revenues when translated into U.S. dollars, the corresponding operating expenditures will be lower as well. We do not use derivative financial instruments for speculative trading purposes.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to Informatica's management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures

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

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Changes in Internal Control over Financial Reporting. There was no change in our system of internal control over financial reporting during the three months ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

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

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

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

In September 2005, the Court granted preliminary approval of the settlement. The Court held a hearing to consider final approval of the settlement on April 24, 2006, and took the matter under submission. In the interim, the Second Circuit reversed the class certification of plaintiffs' claims against the underwriters. *Miles v. Merrill Lynch & Co. (In re Initial Public Offering Securities Litigation)*, 471 F.3d 24 (2d Cir. 2006). On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the district court. Accordingly, the parties withdrew the prior settlement, and plaintiffs filed amended complaints in focus or test cases, in an attempt to comply with the Second Circuit's ruling.

On July 15, 2002, we filed a patent infringement action in U.S. District Court in Northern California against Acta Technology, Inc. (Acta), now known as Business Objects Data Integration, Inc. (BODI), asserting that certain Acta products infringe on three of our patents: U.S. Patent No. 6,014,670, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing, U.S. Patent No. 6,339,775, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing (this patent is a continuation in part of and claims the benefit of U.S. Patent No. 6,014,670), and U.S. Patent No. 6,208,990, entitled Method and Architecture for Automated Optimization of ETL Throughput in Data Warehousing Applications. On July 17, 2002, we filed an amended complaint alleging that Acta products also infringe on one additional patent: U.S. Patent No. 6,044,374, entitled

Object References for Sharing Metadata in Data Marts. In the suit, we are seeking an injunction against future sales of the infringing Acta/BODI products, as well as damages for past sales of the infringing products. On September 5,

2002, BODI answered the complaint and filed counterclaims against us seeking a declaration that each patent asserted is not infringed and is invalid and unenforceable. BODI has not made any claims for monetary relief against us and has not filed any counterclaims alleging that we have infringed any of BODI's patents. On October 11, 2006, in response to the parties' cross-motions for summary judgment, the Court ruled that U.S. Patent No. 6,044,374 was not infringed as a matter of law. However, the Court found that there remained triable issues of fact as to infringement and validity of the three remaining patents. On February 26, 2007, as stipulated by both parties, the Court dismissed the infringement claims on U.S. Patent No. 6,208,990 as well as BODI's counterclaims on this patent. The Company has asserted that BODI's infringement of the Informatica patents was willful and deliberate.

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The trial began on March 12, 2007 on the two remaining patents (U.S. Patent No. 6,014,670 and U.S. Patent No. 6,339,775) originally asserted in 2002 and a verdict was reached on April 2, 2007. During the trial, the judge determined that, as a matter of law, BODI and its customers' use of the Acta/BODI products infringe on the Company's asserted patents. The jury unanimously determined that the Company's patents are valid, that BODI's infringement on the Company's patents was done willfully, and that a reasonable royalty for BODI's infringement is \$25.2 million. The jury's determination that BODI's infringement was willful permits the judge to increase the damages award by up to three times. On May 16, 2007, the judge issued a permanent injunction preventing BODI from shipping the infringing technology now and in the future.

As a result of post-trial motions, the judge has asked the parties to brief the issue of whether the damages award should be reduced in light of the United States Supreme Court's April 30, 2007 *AT&T Corp. v. Microsoft Corp.* decision (which examines the territorial reach of United States patents). The post-trial motions filed focused on the amount of damages awarded and did not alter the jury's determination of validity or willful infringement or the judge's grant of the permanent injunction. The court issued and Informatica accepted a damage award of \$12.2 million in light of *AT&T Corp. v. Microsoft Corp.* On October 29, 2007, the court entered final judgment on the case and the Company is awaiting a possible appeal by BODI.

On August 21, 2007, Juxtacomm Technologies (Juxtacomm) filed a complaint in the Eastern District of Texas against twenty-one defendants, including us, alleging patent infringement and on October 10, 2007, we filed an answer to the complaint. It is our current assessment that our products do not infringe Juxtacomm's patent and that potentially the patent itself is invalid due to significant prior art. The Company intends to vigorously defend itself.

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

Based on current available information, the Company does not expect that the ultimate outcome of these unresolved matters, individually or in the aggregate, will have a material adverse effect on its results of operations, cash flows, or financial position.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, or results of operation. Investors should carefully consider the risks described below before making an investment decision. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained in our other SEC filings, including our Form 10-K for the year ended December 31, 2006.

If we do not compete effectively with companies selling data integration products, our revenues may not grow and could decline.

The market for our products is highly competitive, quickly evolving, and subject to rapidly changing technology. In addition, consolidation among vendors in the software industry continues at a rapid pace. Our competition consists of hand-coded, custom-built data integration solutions developed in-house by various companies in the industry segments that we target, as well as other vendors of integration software products, including Ab Initio, Business Objects (which acquired FirstLogic), Embarcadero Technologies, IBM (which acquired Ascential Software and DataMirror), Oracle (which acquired Sunopsis, Hyperion Solutions and Siebel, and recently has offered to acquire BEA Systems), SAS Institute, and certain other privately held companies. In the past, we have competed with business intelligence vendors that currently offer, or may develop, products with functionalities that compete with our products, such as Business Objects, and to a lesser degree, Cognos, and certain privately held companies. We also compete against certain database and enterprise application vendors, which offer products that typically operate specifically with these competitors' proprietary databases. Such competitors include IBM, Microsoft, Oracle, and SAP (which recently announced an agreement to acquire Business Objects). Many of these competitors have longer operating histories, substantially greater financial, technical, marketing, or other resources, or greater name recognition than we do. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable, or less competitive.

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We believe we currently compete on the basis of the breadth and depth of our products' functionality, as well as on the basis of price. We may have difficulty competing on the basis of price in circumstances where our competitors develop and market products with similar or superior functionality and pursue an aggressive pricing strategy or bundle data integration technology at no cost to the customer or at deeply discounted prices. These difficulties may increase as larger companies target the data integration market. As a result, increased competition and bundling strategies could seriously impede our ability to sell additional products and services on terms favorable to us.

Our current and potential competitors may make strategic acquisitions, consolidate their operations, or establish cooperative relationships among themselves or with other solution providers, thereby increasing their ability to provide a broader suite of software products or solutions and more effectively address the needs of our prospective customers. Such acquisitions could cause customers to defer their purchasing decisions. Our current and potential competitors may establish or strengthen cooperative relationships with our current or future strategic partners, thereby limiting our ability to sell products through these channels. If any of this were to occur, our ability to market and sell our software products would be impaired. In addition, competitive pressures could reduce our market share or require us to reduce our prices, either of which could harm our business, results of operations, and financial condition.

New product introductions and product enhancements may impact market acceptance of our products and affect our results of operations.

For new product introductions and existing product enhancements, changes can occur in product packaging and pricing. After our acquisition of Similarity, we commenced integration of Similarity's data quality technology into the PowerCenter product suite. Accordingly, in May 2006, we released the generally available version of PowerCenter 8. We also announced in May 2006 the strategic roadmap for Informatica On-Demand, a Software-as-a-Service (SaaS) offering, to enable cross-enterprise data integration. As part of Phase One (offering connectivity to leading SaaS vendors), we concurrently introduced Informatica PowerCenter Connect for salesforce.com, which allows customers to integrate data managed by salesforce.com with data managed by on-premise applications. Also, in November 2006, we announced general availability of new versions of Informatica Data Quality and Informatica Data Explorer that deliver advanced data quality capabilities. In March 2007, we launched Information On Demand Data Replicator, a multi-tenant, on-demand service for cross-enterprise data integration. In September 2007, we announced a new Informatica On Demand service: Informatica Data Quality Assessment for salesforce.com which uses pre-defined rules to identify missing, invalid and duplicate data. New product introductions and/or enhancements such as these have inherent risks, including but not limited to the following:

- § delay in completion, launch, delivery, or availability;
- § delay in customer purchases in anticipation of new products not yet released;
- § product quality issues, including the possibility of defects;
- § market confusion based on changes to the product packaging and pricing as a result of a new product release;
- § interoperability issues with third-party technologies;
- § loss of existing customers that choose a competitor's product instead of upgrading or migrating to the new product; and
- § loss of maintenance revenues from existing customers that do not upgrade or migrate.

Given the risks associated with the introduction of new products, we cannot predict their impact on overall sales and revenues.

We have experienced and could continue to experience fluctuations in our quarterly operating results, especially the amount of license revenues we recognize each quarter, and such fluctuations have caused and could cause our stock price to decline.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. These fluctuations have caused our stock price to experience declines in the past and could cause our stock price to significantly fluctuate or experience declines in the future. One of the reasons why our operating results have fluctuated is that our license revenues, which are sold on a perpetual license basis, are not predictable with any significant degree of certainty and are vulnerable to short-term shifts in customer demand. Also, we could experience customer order deferrals in anticipation of future new product introductions or product enhancements, as well as a result of particular budgeting and purchase cycles of our customers. By comparison, our short-term expenses are relatively fixed and based in part on our expectations of future revenues.

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Moreover, our backlog of license orders at the end of a given fiscal period has tended to vary. Historically, our backlog typically decreases from the prior quarter at the end of the first and third quarters and increases from the prior quarter at the end of the fourth quarter.

Furthermore, we generally recognize a substantial portion of our license revenues in the last month of each quarter and, sometimes, in the last few weeks of each quarter. As a result, we cannot predict the adverse impact caused by cancellations or delays in orders until the end of each quarter. Moreover, the likelihood of an adverse impact may be greater if we experience increased average transaction sizes due to a mix of relatively larger deals in our sales pipeline.

We began expanding our international operations in 2005 and we have recently opened new sales offices in Brazil, China, India, Japan, South Korea, and Taiwan. As a result of this international expansion, as well as the increase in our direct sales headcount in the United States during 2005, our sales and marketing expenses have increased during 2005, 2006, and 2007. We expect these investments to increase our revenues, sales productivity, and eventually our profitability. However, if we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in productivity and efficiencies from our new sales personnel as they gain more experience, then we may not achieve our expected increases in revenue, sales productivity, and profitability. We have experienced some increases in revenue and sales productivity in the United States in the past few years. While in the past year, we have experienced increases in revenues and sales productivity internationally, we have not yet achieved the same level of sales productivity internationally as domestically.

Due to the difficulty we experience in predicting our quarterly license revenues, we believe that quarter-to-quarter comparisons of our operating results are not necessarily a good indication of our future performance. Furthermore, our future operating results could fail to meet the expectations of stock analysts and investors. If this happens, the price of our common stock could fall.

If we are unable to accurately forecast revenues, we may fail to meet stock analysts and investors expectations of our quarterly operating results, which could cause our stock price to decline.

We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals, including the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We assess the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time. Additionally, because we have historically recognized a substantial portion of our license revenues in the last month of each quarter and sometimes in the last few weeks of each quarter, we may not be able to adjust our cost structure in a timely manner in response to variations in the conversion of the sales pipeline into license revenues. Any change in the conversion rate of the pipeline into customer sales or in the pipeline itself could cause us to improperly budget for future expenses that are in line with our expected future revenues, which would adversely affect our operating margins and results of operations and could cause the price of our common stock to decline.

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

We believe that our ability to increase the sales of our products depends in part upon maintaining and strengthening relationships with our current strategic partners and any future strategic partners. In addition to our direct sales force, we rely on established relationships with a variety of strategic partners, such as systems integrators, resellers, and distributors, for marketing, licensing, implementing, and supporting our products in the United States and internationally. We also rely on relationships with strategic technology partners, such as enterprise application providers, database vendors, data quality vendors, and enterprise integrator vendors, for the promotion and implementation of our products. We have become a global OEM partner with Cognos, SAP and Hyperion Solutions (Oracle), and have partnered with salesforce.com. We have also expanded and extended our OEM relationship with Oracle.

Our strategic partners offer products from several different companies, including, in some cases, products that compete with our products. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling, and implementing our products as compared to our competitors' products.

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Although our strategic partnership with IBM's Business Consulting Services (BCS) group has been successful in the past, IBM's acquisition of Ascential Software and DataMirror, has made it critical that we strengthen our relationships with our other strategic partners. Business Objects' acquisition of FirstLogic, a former strategic partner, and SAP's recently announced agreement to acquire Business Objects, may also make such strengthening with other strategic partners more critical. We cannot guarantee that we will be able to strengthen our relationships with our strategic partners or that such relationships will be successful in generating additional revenue.

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

We have experienced reduced sales pipeline and pipeline conversion rates in prior years, which have adversely affected the growth of our company and the price of our common stock.

In the past, we have experienced a reduced conversion rate of our overall license pipeline, primarily as a result of general economic slowdowns, which caused the amount of customer purchases to be reduced, deferred, or cancelled. As such, we have experienced uncertainty regarding our sales pipeline and our ability to convert potential sales of our products into revenue. We experienced an increase in the size of our sales pipeline and some increases in our pipeline conversion rate subsequent to 2005 as a result of our increased investment in sales personnel and a gradually improving IT spending environment. However, the size of our sales pipeline and our conversion rate are not consistent on a quarter-to-quarter basis and our conversion rate declined in the third quarter of 2006 before increasing in the fourth quarter of 2006, and throughout 2007. If we are unable to continue to increase the size of our sales pipeline and our pipeline conversion rate, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

Our international operations expose us to greater risks, including but not limited to those regarding intellectual property, collections, exchange rate fluctuations, and regulations, which could limit our future growth.

We have significant operations outside the United States, including software development centers in India, Ireland, Israel, the Netherlands, and the United Kingdom, sales offices in Europe, including France, Germany, the Netherlands, Switzerland, and the United Kingdom, as well as in countries in Asia-Pacific, and customer support centers in India, the Netherlands, and the United Kingdom. Additionally, we have recently opened sales offices in Brazil, China, India, Japan, South Korea, and Taiwan, and we plan to continue to expand our international operations in the Asia-Pacific market. Our international operations face numerous risks. For example, in order to sell our products in certain foreign countries, our products must be localized, that is, customized to meet local user needs and in order to meet the requirements of certain markets, particularly some in Asia, and our product must be double-byte enabled. Developing internationalized versions of our products for foreign markets is difficult, requires us to incur additional expenses, and can take longer than we anticipate. We currently have limited experience in internationalizing products and in testing whether these internationalized products will be accepted in the target countries. We cannot ensure that our internationalization efforts will be successful.

In addition, we have only a limited history of marketing, selling, and supporting our products and services internationally. As a result, we must hire and train experienced personnel to staff and manage our foreign operations. However, we have experienced difficulties in recruiting, training, managing, and retaining an international staff, in particular related to sales management and sales personnel, which have affected our ability to increase sales productivity, and related to turnover rates and wage inflation in India, which have increased costs. We may continue to experience such difficulties in the future.

We must also be able to enter into strategic distributor relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor

relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited.

Business practices in the international markets that we serve may differ from those in North America and may require us to include terms in our software license agreements, such as extended payment or warranty terms, or performance obligations that may require us to defer license revenues and recognize them ratably over the warranty term or contractual period of the agreement. For example, in 2004, we were unable to recognize a portion of license fees for two large software license agreements signed in Europe in the third

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quarter of 2004. We deferred the license revenues related to these software license agreements in September 2004 due to extended warranties that contained provisions for additional unspecified deliverables and began amortizing the deferred revenues balances to license revenues in September 2004 for a two- to five-year period. Although historically we have infrequently entered into software license agreements that require ratable recognition of license revenue, we may enter into software license agreements in the future that may include non-standard terms related to payment, maintenance rates, warranties, or performance obligations.

Our software development centers in India, Ireland, Israel, the Netherlands, and the United Kingdom also subject our business to certain risks, including:

- § greater difficulty in protecting our ownership rights to intellectual property developed in foreign countries, which may have laws that materially differ from those in the United States;
- § communication delays between our main development center in Redwood City, California and our development centers in India, Ireland, Israel, the Netherlands, and the United Kingdom as a result of time zone differences, which may delay the development, testing, or release of new products;
- § greater difficulty in relocating existing trained development personnel and recruiting local experienced personnel, and the costs and expenses associated with such activities; and
- § increased expenses incurred in establishing and maintaining office space and equipment for the development centers.

Additionally, our international operations as a whole are subject to a number of risks, including the following:

- § greater risk of uncollectible accounts and longer collection cycles;
- § greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- § greater risk of a failure of our foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices;
- § potential conflicts with our established distributors in countries in which we elect to establish a direct sales presence;
- § our limited experience in establishing a sales and marketing presence and the appropriate internal systems, processes, and controls in Asia-Pacific, especially China, Singapore, South Korea, and Taiwan;
- § fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business, if we continue to not engage in hedging activities; and
- § general economic and political conditions in these foreign markets.

For example, an increase in international sales would expose us to foreign currency fluctuations where an unfavorable change in the exchange rate of foreign currencies against the U.S. dollar would result in lower revenues when translated into U.S. dollars although operating expenditures would be lower as well. These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, results of operations, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to manage our international operations and the associated risks effectively could limit the future growth of our business. ***Although we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis, and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.***

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Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404), and the rules and regulations promulgated by the SEC to implement SOX 404, we are required to furnish an annual report in our Form 10-K regarding the effectiveness of our internal control over financial reporting. The report s assessment of our internal control over financial reporting as of the end of our fiscal year must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

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Management's assessment of internal control over financial reporting requires management to make subjective judgments and, because this requirement to provide a management report has only been in effect since 2004, some of our judgments will be in areas that may be open to interpretation. Therefore, we may have difficulties in assessing the effectiveness of our internal controls, and our auditors, who are required to issue an attestation report along with our management report, may not agree with management's assessments.

During the past two years, our organizational structure has increased in complexity. For example, during 2005 and 2006, we expanded our presence in the Asia-Pacific region, where business practices can differ from those in other regions of the world and can create internal controls risks. To address potential risks, we recognize revenue on transactions derived in this region (except for direct sales in Japan and Australia) only when the cash has been received and all other revenue recognition criteria have been met. We also have provided business practices training to our sales teams. While our organizational structure has increased in complexity as a result of our international expansion, our capital structure has also increased in complexity as a result of the issuance of the Notes in March 2006. In July 2006, we discovered a significant deficiency in the manner in which we accounted for the shares of Common Stock issued upon the conversion of the Notes for purposes of determining our weighted average diluted shares outstanding and diluted earnings per share. As a result, we issued a press release and filed a related Current Report on Form 8-K/A to correct the weighted average diluted shares outstanding and diluted earnings per share. Finally, our reorganization of various foreign entities in April 2006, which required a change in some of our internal controls over financial reporting, and the assessment of the impact for our adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), further add to the reporting complexity and increase the potential risks of our ability to maintain the effectiveness of our internal controls. Overall, the combination of our increased complexity and the ever-increasing regulatory complexity make it more critical for us to attract and retain qualified and technically competent finance employees.

Although we currently believe our internal control over financial reporting is effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate.

If we are unable to assert that our internal control over financial reporting is effective in any future period (or if our auditors are unable to provide an attestation report regarding the effectiveness of our internal controls, or qualify such report or fail to provide such report in a timely manner), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

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

Due to the expense, broad functionality, and company-wide deployment of our products, our customers' decisions to purchase our products typically require the approval of their executive decision makers. In addition, we frequently must educate our potential customers about the full benefits of our products, which also can require significant time. This trend toward greater customer executive level involvement and customer education is likely to increase as we expand our market focus to broader data integration initiatives. Further, our sales cycle may lengthen as we continue to focus our sales efforts on large corporations. As a result of these factors, the length of time from our initial contact with a customer to the customer's decision to purchase our products typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle, including:

- § our customers' budgetary constraints and internal acceptance review procedures;
- § the timing of our customers' budget cycles;
- § the seasonality of technology purchases, which historically has resulted in stronger sales of our products in the fourth quarter of the year, especially when compared to lighter sales in the first quarter of the year;
- § our customers' concerns about the introduction of our products or new products from our competitors; or
- § potential downturns in general economic or political conditions that could occur during the sales cycle.

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

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

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

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

We believe our success depends upon our ability to attract and retain highly skilled personnel and key members of our management team. We continue to experience changes in members of our senior management team. As new senior personnel join our company and become familiar with our business strategy and systems, their integration could result in some disruption to our ongoing operations.

In the past, we also experienced an increased level of turnover in our direct sales force and such increase in the turnover rate impacted our ability to generate license revenues. Although we have hired replacements in our sales force and have seen the pace of the turnover decrease in 2005 and 2006, we typically experience lower productivity from newly hired sales personnel for a period of 6 to 12 months. Turnover levels in 2007 have increased slightly due to the improving labor market in the United States high-technology industry. If we are unable to effectively train such new personnel, or if we experience an increase in the level of sales force turnover, our ability to generate license revenues may be negatively impacted.

In addition, we have experienced an increased level of turnover in other areas of the business. Since the market has become increasingly competitive and the hiring is more difficult and costly, our personnel have become more attractive to other companies. Our plan for continued growth requires us to add personnel to meet our growth objectives and places increased importance on our ability to attract, train, and retain new personnel. If we are unable to effectively attract and train new personnel, or if we continue to experience an increase in the level of turnover, our results of operations may be negatively impacted.

We currently do not have any key-man life insurance relating to our key personnel, and the employment of the key personnel in the United States is at will and not subject to employment contracts. We have relied on our ability to grant stock options as one mechanism for recruiting and retaining highly skilled talent. Accounting regulations requiring the expensing of stock options may impair our future ability to provide these incentives without incurring significant compensation costs. There can be no assurance that we will continue to successfully attract and retain key personnel.

If the current growth in U.S. and global economies do not result in increased sales of our products and services, our operating results would be harmed, and the price of our common stock could decline.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economies. We have experienced the adverse effect of economic slowdowns in the past, which resulted in a significant reduction in capital spending by our customers, as well as longer sales cycles, and the deferral or delay of purchases of our products.

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Recent turmoil in the U.S. lending markets could have an impact on the overall U.S. economy and thus the buying patterns of our customers and prospects. Initially it could affect the financial services sector which is our largest vertical market. While our sales to the financial services sector have continued to grow on a worldwide basis, we have recently experienced greater growth internationally than domestically. If the U.S. economy does not continue to grow, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

Moreover, if the economies of Europe and Asia-Pacific do not continue to grow or if there is an escalation in regional or global conflicts, we may fall short of our revenue expectations. Any economic slowdown could adversely affect our pipeline conversion rate, which could impact our ability to meet our revenue expectations. Although we are investing in Asia-Pacific, there are significant risks with overseas investments and our growth prospects in Asia-Pacific are uncertain. In addition, we could experience delays in the payment obligations of our worldwide reseller customers if they experience weakness in the end-user market, which would increase our credit risk exposure and harm our financial condition.

If the market in which we sell our products and services does not grow as we anticipate, we may not be able to increase our revenues at an acceptable rate of growth, and the price of our common stock could decline.

The market for software products that enable more effective business decision-making by helping companies aggregate and utilize data stored throughout an organization continues to change. Substantially all of our historical revenues have been attributable to the sales of products and services in the data warehousing market. While we believe that this market is still growing, we expect most of our growth to come from the emerging market for broader data integration, which includes migration, data consolidation, data synchronization, and single view projects. The use of packaged software solutions to address the needs of the broader data integration market is relatively new and is still emerging. Additionally, we expect growth in the areas of data quality and on-demand (SaaS) offerings. Our potential customers may:

- § not fully value the benefits of using our products;
- § not achieve favorable results using our products;
- § experience technical difficulties in implementing our products; or
- § use alternative methods to solve the problems addressed by our products.

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

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

To date, substantially all of our revenues have been derived from our data integration products such as PowerCenter and PowerExchange and related services. We expect sales of our data integration software and related services to comprise substantially all of our revenues for the foreseeable future. If any of our products does not achieve market acceptance, our revenues and stock price could decrease. In particular, with the completion of our Similarity acquisition and our Itemfield acquisition, we intend to further integrate Similarity's data quality technology and Itemfield's data transformation technologies into our PowerCenter data integration product suite. Market acceptance for our current products, as well as our PowerCenter product with Similarity's data quality technology and Itemfield's data transformation technologies, could be affected if, among other things, competition substantially increases in the enterprise data integration market or transactional applications suppliers integrate their products to such a degree that the utility of the data integration functionality that our products provide is minimized or rendered unnecessary.

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

We need to continue to improve our internal systems, processes, and controls to effectively (1) manage our operations and growth, including our international growth into new geographies, particularly the Asia-Pacific market,

and (2) realign resources from time to time to more efficiently address market or product requirements. To the extent any realignment requires changes to our internal systems, processes, and controls or organizational structure, we could experience disruption in customer relationships, increases in cost, and increased employee turnover. In addition, we may not be able to successfully implement improvements to these systems,

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processes, and controls in an efficient or timely manner, and we may discover deficiencies in existing systems, processes, and controls. We have licensed technology from third parties to help us accomplish this objective. The support services available for such third-party technology may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. We may experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller deployments of our products, or increase our technical support costs.

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

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

§ the announcement of new products or product enhancements by our competitors;

§ quarterly variations in our competitors' results of operations;

§ changes in earnings estimates and recommendations by securities analysts;

§ developments in our industry; and

§ changes in accounting rules.

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

The recognition of share-based payments for employee stock option and employee stock purchase plans has adversely impacted our results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 123(R), *Share-Based Payment*, which requires us to measure compensation cost for all share-based payment (including employee stock options) at fair value at the date of grant and record such expense in our condensed consolidated financial statements. See Note 3, *Share-Based Payments*, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. The adoption of SFAS No. 123(R) had a significant adverse impact on our condensed consolidated results of operations as it increases our operating expenses and reduces our operating income, net income, and earnings per share, all of which could result in a decline in the price of our common stock in the future. The effect of share-based payment on our operating income, net income, and earnings per share is not predictable as the underlying assumptions, including volatility, interest rate, and expected life, of the Black-Scholes-Merton model could vary over time. Further, our forfeiture rate might vary from quarter to quarter due to change in employee turnover.

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

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

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

The software products we offer are inherently complex and, despite extensive testing and quality control, have in the past and may in the future contain errors or defects, especially when first introduced. These defects and errors could cause damage to our reputation, loss of revenue, product returns, order cancellations, or lack of market acceptance of our products. We have in the past and may in the future need to issue corrective releases of our software products to fix these defects or errors, which could require us to allocate significant customer support resources to address these problems.

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

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

The market for our products is characterized by continuing technological development, evolving industry standards, changing customer needs, and frequent new product introductions and enhancements. The introduction of products by our direct competitors or others embodying new technologies, the emergence of new industry standards, or changes in customer requirements could render our existing products obsolete, unmarketable, or less competitive. In particular, an industry-wide adoption of uniform open standards across heterogeneous applications could minimize the importance of the integration functionality of our products and materially adversely affect the competitiveness and market acceptance of our products. Our success depends upon our ability to enhance existing products, to respond to changing customer requirements, and to develop and introduce in a timely manner new products that keep pace with technological and competitive developments and emerging industry standards. We have in the past experienced delays in releasing new products and product enhancements and may experience similar delays in the future. As a result, in the past, some of our customers deferred purchasing our products until the next upgrade was released. Future delays or problems in the installation or implementation of our new releases may cause customers to forgo purchases of our products and purchase those of our competitors instead. Additionally, even if we are able to develop new products and product enhancements, we cannot ensure that they will achieve market acceptance.

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

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

Our effective tax rate is difficult to project and changes in such tax rate could adversely affect our operating results.

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

Furthermore, our overall effective income tax rate may be affected by various factors in our business including acquisitions, changes in our legal structure, changes in the geographic mix of income and expenses, changes in valuation allowances, changes in tax laws and applicable accounting rules including FIN 48 and FAS 123(R), developments in tax audits, and variations in the estimated and actual level of annual pre-tax income.

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The conversion provisions of our convertible senior notes and the level of debt represented by such notes will dilute the ownership interests of stockholders, could adversely affect our liquidity, and could impede our ability to raise additional capital.

In March 2006, we issued \$230 million aggregate principal amount of Notes due 2026. The note holders can convert the Notes into shares of our common stock at any time before the Notes mature or we redeem or repurchase them. Upon certain dates (March 15, 2011, March 15, 2016, and March 15, 2021) or the occurrence of certain events including a change in control, the note holders can require us to repurchase some or all of the Notes. Upon any conversion of the Notes, our basic earnings per share would be expected to decrease because such underlying shares would be included in the basic earnings per share calculation. Given that events constituting a change in control can trigger such repurchase obligations, the existence of such repurchase obligations may delay or discourage a merger, acquisition, or other consolidation. Our ability to meet our repurchase or repayment obligations of the Notes will depend upon our future performance, which is subject to economic, competitive, financial, and other factors affecting our industry and operations, some of which are beyond our control. If we are unable to meet the obligations out of cash flows from operations or other available funds, we may need to raise additional funds through public or private debt or equity financings. We may not be able to borrow money or sell more of our equity securities to meet our cash needs. Even if we are able to do so, it may not be on terms that are favorable or reasonable to us.

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

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

However, these legal rights and contractual agreements may provide only limited protection. Our pending patent applications may not be allowed or our competitors may successfully challenge the validity or scope of any of our issued patents or any future issued patents. Our patents alone may not provide us with any significant competitive advantage, and third parties may develop technologies that are similar or superior to our technology or design around our patents. Third parties could copy or otherwise obtain and use our products or technology without authorization or develop similar technology independently. We cannot easily monitor any unauthorized use of our products, and, although we are unable to determine the extent to which piracy of our software products exists, software piracy is a prevalent problem in our industry in general.

The risk of not adequately protecting our proprietary technology and our exposure to competitive pressures may be increased if a competitor should resort to unlawful means in competing against us. For example, in July 2003 we settled a complaint against Ascential Software Corporation in which a number of former Informatica employees recruited and hired by Ascential misappropriated our trade secrets, including sensitive product and marketing information and detailed sales information regarding existing and potential customers, and unlawfully used that information to benefit Ascential in gaining a competitive advantage against us. Although we were ultimately successful in this lawsuit, there are no assurances that we will be successful in protecting our proprietary technology from competitors in the future.

We have entered into agreements with many of our customers and partners that require us to place the source code of our products into escrow. Such agreements generally provide that such parties will have a limited, non-exclusive right to use such code if: (1) there is a bankruptcy proceeding by or against us; (2) we cease to do business; or (3) we fail to meet our support obligations. Although our agreements with these third parties limit the scope of rights to use of the source code, we may be unable to effectively control such third parties' actions.

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

We may be forced to initiate litigation to protect our proprietary rights. For example, on July 15, 2002, we filed a patent infringement lawsuit against Acta Technology, Inc., now known as Business Objects Data Integration, Inc. (BODI). See Part II, Item 1 of this Report. Litigating claims related to the enforcement of proprietary rights is very expensive and can be burdensome in terms of management time and resources, which could adversely affect our business and operating results. Although we have received a favorable verdict in the trial against BODI in April 2007, an appeal by BODI is expected so the expense and burden to the company is expected to continue.

Table of Contents***We may face intellectual property infringement claims that could be costly to defend and result in our loss of significant rights.***

As is common in the software industry, we have received and may continue from time to time to receive notices from third parties claiming infringement by our products of third-party patent and other proprietary rights. As the number of software products in our target markets increases and the functionality of these products further overlaps, we may become increasingly subject to claims by a third party that our technology infringes such party's proprietary rights. Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays, or require us to enter into royalty or licensing agreements, any of which could adversely affect our business, financial condition, and operating results. Although we do not believe that we are currently infringing any proprietary rights of others, legal action claiming patent infringement could be commenced against us, and we may not prevail in such litigation given the complex technical issues and inherent uncertainties in patent litigation. The potential effects on our business that may result from a third-party infringement claim include the following:

- § we may be forced to enter into royalty or licensing agreements, which may not be available on terms favorable to us, or at all;
- § we may be required to indemnify our customers or obtain replacement products or functionality for our customers;
- § we may be forced to significantly increase our development efforts and resources to redesign our products as a result of these claims; and
- § we may be forced to discontinue the sale of some or all of our products.

We have a limited operating history and a cumulative net loss, which makes it difficult to evaluate our operations, products, and prospects for the future.

We were incorporated in 1993 and began selling our products in 1996; therefore, we have a limited operating history upon which investors can evaluate our operations, products, and prospects. Since our inception we have incurred significant annual net losses, resulting in an accumulated deficit of \$91.1 million as of September 30, 2007. We cannot ensure that we will be able to sustain profitability in the future. If we are unable to sustain profitability, we may fail to meet the expectations of stock analysts and investors, and the price of our common stock may fall.

We may not successfully integrate Similarity's or Itemfield's technologies, employees, or business operations with our own. As a result, we may not achieve the anticipated benefits of our acquisitions, which could adversely affect our operating results and cause the price of our common stock to decline.

In January 2006, we acquired Similarity, a provider of business-focused data quality and profiling solutions, and in December 2006, we acquired Itemfield, a provider of data transformation technologies. The successful integration of Similarity's and Itemfield's technologies, employees, and business operations will place an additional burden on our management and infrastructure. These acquisitions, and any others we may make in the future, will subject us to a number of risks, including:

- § the failure to capture the value of the businesses we acquired, including the loss of any key personnel, customers, and business relationships;
- § any inability to generate revenue from the combined products that offsets the associated acquisition and maintenance costs, including addressing issues related to the availability of offerings on multiple platforms;
- § the assumption of any contracts or agreements from Similarity and/or Itemfield that contain terms or conditions that are unfavorable to us; and
- § the potential impairment of our goodwill and a need for a subsequent write-off or write-down of our goodwill balance based upon a failure to meet our revenue goals and objectives in the future in relation to our company market value.

There can be no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with our Similarity acquisition, our Itemfield acquisition, or any future acquisitions. To the extent that we are unable to successfully manage these risks, our business, operating results, or financial condition could be adversely affected, and the price of our common stock could decline.

Table of Contents***We may engage in future acquisitions or investments that could dilute our existing stockholders or cause us to incur contingent liabilities, debt, or significant expense.***

From time to time, in the ordinary course of business, we may evaluate potential acquisitions of, or investments in, related businesses, products, or technologies. For example, in January 2006 we announced our acquisition of Similarity, and in December 2006 we announced our acquisition of Itemfield. Future acquisitions and investments like these could result in the issuance of dilutive equity securities, the incurrence of debt or contingent liabilities, or the payment of cash to purchase equity securities from third parties. There can be no assurance that any strategic acquisition or investment will succeed. Risks include difficulties in the integration of the products, personnel, and operations of the acquired entity, disruption of the ongoing business, potential management distraction from the ongoing business, difficulties in the retention of key partner alliances, and potential product liability issues related to the acquired products.

We have substantial real estate lease commitments that are currently subleased to third parties, and if subleases for this space are terminated or cancelled, our operating results and financial condition could be adversely affected.

We have substantial real estate lease commitments in the United States and internationally. However, we do not occupy many of these leases. Currently, we have substantially subleased these unoccupied properties to third parties. The terms of most of these sublease agreements account for only a portion of the period of our master leases and contain rights of the subtenant to extend the term of the sublease. To the extent that (1) our subtenants do not renew their subleases at the end of the initial term and we are unable to enter into new subleases with other parties at comparable rates, or (2) our subtenants are unable to pay the sublease rent amounts in a timely manner, our cash flow would be negatively impacted and our operating results and financial condition could be adversely affected. See Note 6, *Facilities Restructuring Charges*, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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

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

In addition, we have adopted a stockholder rights plan. Under the plan, we issued a dividend of one right for each outstanding share of common stock to stockholders of record as of November 12, 2001, and such rights will become exercisable only upon the occurrence of certain events. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our Board of Directors, the plan could make it more difficult for a third party to acquire us or a significant percentage of our outstanding capital stock without first negotiating with our Board of Directors regarding such acquisition.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications or network failure, and other events beyond our control. We have prepared a detailed disaster recovery plan, and will continue to expand the scope over time. Some of our facilities in Asia experienced disruption as a result of the December 2006 earthquake off the coast of Taiwan, which caused a major fiber outage throughout the surrounding regions. The outage affected network connectivity, which has been restored to acceptable levels. Such disruption can negatively affect our operations given necessary interaction among our international facilities. In the event such an earthquake reoccurs, it could again disrupt the operations of our affected facilities. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Repurchases of Equity Securities*

In April 2007, Informatica's Board of Directors authorized and announced a stock repurchase program for up to \$50 million of our common stock. Purchases can be made from time to time in the open market and privately negotiated transactions and will be funded from available working capital. The purpose of our stock repurchase program is, among other things, to help offset the dilution caused by the issuance of stock under our employee stock option plans. The number of shares acquired and the timing of the repurchases are based on several factors, including general market conditions and the trading price of our common stock. These repurchased shares will be retired and reclassified as authorized and unissued shares of common stock.

The following table provides information about the repurchase of our common stock during the three months ended September 30, 2007:

Period	(1) Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1 - July 31	285,000	\$ 14.48	285,000	\$ 41,260
August 1 - August 31	765,000	\$ 13.69	765,000	\$ 30,761
September 1 - September 30				
Total	1,050,000	\$ 13.91	1,050,000	\$ 30,761

(1) All shares repurchased in open-market transactions under the repurchase program.

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

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ITEM 6. EXHIBITS

Exhibit No. Description

- | | |
|------|--|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-15(a). |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-15(a). |
| 32.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |

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SIGNATURES

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

November 7, 2007

INFORMATICA CORPORATION

/s/ Earl Fry

Earl Fry
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)
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**INFORMATICA CORPORATION
EXHIBITS TO FORM 10-Q QUARTERLY REPORT
For the Quarter Ended September 30, 2007**

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-15(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-15(a).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.