EXACT SCIENCES CORP
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-32179

EXACT SCIENCES CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**02-0478229**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Campus Drive, Marlborough, Massachusetts	**01752**
(Address of principal executive offices)	(Zip Code)

(508) 683-1200

(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 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 x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 4, 2008, the registrant had 27,243,568 shares of Common Stock outstanding.

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EXACT SCIENCES CORPORATION

Condensed Consolidated Balance Sheets

(Amounts in thousands, except share data - unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,504	$ 4,486
Marketable securities	2,244	8,101
Prepaid expenses and other current assets	402	275
Total current assets	8,150	12,862
Property and Equipment, at cost:		
Laboratory equipment	3,730	3,730
Office and computer equipment	1,420	1,420
Leasehold improvements	1,161	1,161
Furniture and fixtures	299	299
	6,610	6,610
Less Accumulated depreciation and amortization	(6,125)	(6,009)
	485	601
Patent costs, net of accumulated amortization of $2,837 and $3,019 at June 30, 2008 and December 31, 2007, respectively	200	432
Restricted cash	700	700
	$ 9,535	$ 14,595
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 350	$ 245
Accrued expenses	1,568	2,811
Third party royalty obligation	2,000	1,200
Deferred license fees, current portion	1,350	1,350
Total current liabilities	5,268	5,606
Deferred license fees, less current portion	2,025	2,701
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $0.01 par value Authorized 5,000,000 shares Issued and outstanding 0 shares at June 30, 2008 and and December 31, 2007		
Common stock, $0.01 par value Authorized 100,000,000 shares Issued and outstanding 27,274,118 and 27,225,541 shares at June 30, 2008 and December 31, 2007, respectively	273	273
Additional paid-in capital	169,407	168,813
Treasury stock, at cost, 85,550 shares	(97)	(97)
Other comprehensive income	1	23
Accumulated deficit	(167,342)	(162,724)
Total stockholders equity	2,242	6,288

	$ 9,535	$ 14,595

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EXACT SCIENCES CORPORATION

Condensed Consolidated Statements of Operations

(Amounts in Thousands, except per share data unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenue:				
Product royalty fees	$ (495)	$ 19	$ (787)	$ 45
License fees	338	1,091	676	2,182
Product	11	5	16	58
	(146)	1,115	(95)	2,285
Cost of revenue:				
Product royalty fees		1	1	3
Gross profit	(146)	1,114	(96)	2,282
Operating expenses:				
Research and development (1)	528	1,332	1,387	2,609
General and administrative (1)	1,495	1,447	3,330	3,095
Sales and marketing (1)		400		789
Restructuring	(5)	(2)	(7)	31
	2,018	3,177	4,710	6,524
Loss from operations	(2,164)	(2,063)	(4,806)	(4,242)
Interest income	64	238	188	497
Net loss	$ (2,100)	$ (1,825)	$ (4,618)	$ (3,745)
Net loss per share basic and diluted	$ (0.08)	$ (0.07)	$ (0.17)	$ (0.14)
Weighted average common shares outstanding basic and diluted	27,175	26,880	27,160	26,835

(1) Non-cash stock-based compensation expense included in these amounts are as follows:

Research and development	$ 25	$ 357	$ 70	$ 431
General and administrative	204	274	460	524
Sales and marketing		90		174

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EXACT SCIENCES CORPORATION

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands - unaudited)

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2007	
Cash flows from operating activities:				
Net loss	$	(4,618)	$	(3,745)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and write-offs of fixed assets		116		110
Amortization and write-offs of patents		315		239
Stock-based compensation		530		1,129
Amortization of deferred license fees		(676)		(2,182)
Changes in assets and liabilities:				
Prepaid expenses and other current assets		(127)		30
Accounts payable		105		5
Accrued expenses		(1,185)		296
Third party royalty obligation		800		
Net cash used in operating activities		(4,740)		(4,118)
Cash flows from investing activities:				
Purchases of marketable securities		(3,458)		(12,934)
Maturities of marketable securities		9,293		16,076
Purchases of property and equipment				(2)
Increase in patent costs and other assets		(83)		(33)
Net cash provided by investing activities		5,752		3,107
Cash flows from financing activities:				
Proceeds from exercise of common stock options and stock purchase plan		6		15
Net cash provided by financing activities		6		15
Net increase (decrease) in cash and cash equivalents		1,018		(996)
Cash and cash equivalents, beginning of period		4,486		4,831
Cash and cash equivalents, end of period	$	5,504	$	3,835
Supplemental disclosure of non-cash investing and financing activities:				
Issuance of 27,660 shares of common stock to fund the Company s 401(k) matching contribution for 2007	$	58	$	
Issuance of 34,030 shares of common stock to fund the Company s 401(k) matching contribution for 2006	$		$	103
Issuance of 56,675 shares of restricted common stock to collaborator in lieu of cash to settle semi-annual license obligation	$		$	158

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EXACT SCIENCES CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

EXACT Sciences Corporation (the Company) was incorporated in February 1995. The Company has developed proprietary DNA-based technologies for use in the detection of cancer. The Company has selected colorectal cancer as the first application of its technologies. The Company has licensed certain of its technologies, including improvements to such technologies, on an exclusive basis through December 2010 to Laboratory Corporation of America® Holdings (LabCorp®) for use in a commercial testing service for the detection of colorectal cancer developed by LabCorp. LabCorp s first generation testing service, PreGen-Plus , was a non-invasive stool-based DNA testing service for the detection of colorectal cancer in the average-risk population and was marketed by LabCorp from August 2003 through June 1, 2008. In July 2008, LabCorp began offering ColoSure , its new non-invasive laboratory developed stool-based DNA testing service for the detection of colorectal cancer in the average-risk population, which is based on the Vimentin gene, a methylated DNA marker that in published studies was shown to be associated with colorectal cancer. The Company has devoted the majority of its efforts to date on research and development and commercialization support of its colorectal cancer detection technologies.

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company are unaudited and have been prepared on a basis substantially consistent with the Company s audited financial statements. These condensed consolidated financial statements assume that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business, and, in the opinion of management, include all normal and recurring adjustments which are necessary to present fairly the results of operations for the reported periods. These condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and follow the requirements of the Securities and Exchange Commission (SEC) for interim reporting.

The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for any other interim period or for a full fiscal year.

The Company has generated limited operating revenues since its inception and, as of June 30, 2008, had an accumulated deficit of approximately $167.3 million. The Company s losses have historically resulted from costs incurred in conjunction with research, development, and clinical study initiatives, salaries and benefits associated with the hiring of personnel, the initiation of marketing programs and, prior to August 31, 2007, costs related to its sales and marketing functions to support the commercialization of its stool-based DNA screening technology.

The audit opinion with respect to the Company s consolidated financial statements for the year ended December 31, 2007 issued by its independent registered public accounting firm included an explanatory paragraph to emphasize that there is substantial doubt about the Company s ability to continue as a going concern. The Company expects that its cash, cash equivalents and short-term investments on hand at June 30, 2008 will be sufficient to fund its current operations through the end of the second quarter of 2009. This projection is based on the Company s current cost structure and its current operating assumptions, which do not provide for any funding related to clinical validation and other studies for the Company s Version 2 technology.The Company has no current sources of material ongoing revenue and, accordingly, it will need to raise additional capital in the next ten months through a strategic transaction, debt or equity financing, or third-party collaboration, if any, or some combination of the foregoing, to continue operations beyond the end of the second quarter of 2009. If the Company is unable to obtain additional capital prior to the end of the second quarter of 2009, it will not be able to sustain its operations and would likely be required to cease its operations. In addition, if the Company s expenses exceed its current estimates, the Company will be required to obtain additional funds even sooner. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

As a result of the foregoing, the Company engaged an investment bank in the first quarter of 2008 to assist its board of directors in evaluating strategic alternatives for the Company. On July 16, 2008, the Company announced that it revised its corporate strategy to take immediate actions to preserve existing cash while focusing on the pursuit of a strategic transaction for the business. To date,

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the Company has not entered into any agreements or commitments for any specific strategic alternative or transaction in connection therewith. The company s revised corporate strategy may not result in a strategic alternative in the near future, if at all.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company s wholly-owned subsidiary, EXACT Sciences Securities Corporation, a Massachusetts securities corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with maturities of 90 days or less at the time of acquisition to be cash equivalents. Cash equivalents primarily consist of money market funds.

Restricted Cash

At June 30, 2008 and December 31, 2007, $0.7 million of the Company s cash has been pledged as collateral for an outstanding letter of credit in connection with the lease for the Company s corporate headquarters.

Marketable Securities

The Company accounts for its investments in marketable securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income.

All of the Company s investments are comprised of fixed income investments and all are deemed available-for-sale. The objectives of this portfolio are to provide liquidity and safety of principal while striving to achieve the highest rate of return consistent with these two objectives. The Company s investment policy limits investments to certain types of instruments issued by institutions with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer. There were no realized gains or losses on the sale of available-for-sale securities during the three and six months ended June 30, 2008 and 2007.

Patent Costs

Patent costs, which have historically consisted of related legal fees, are capitalized as incurred and are amortized beginning when patents are approved over an estimated useful life of five years. Capitalized patent costs are expensed upon disapproval, upon a decision by the Company to no longer pursue the patent or when the related intellectual property is deemed to be no longer of value to the Company. As of June 30, 2008, the majority of the recorded value of the patent portfolio related to intellectual property licensed to LabCorp in connection with its stool-based DNA colorectal cancer screening service.

The following table summarizes activity with respect to the Company s capitalized patents for the six months ended June 30, 2008 and 2007. Amounts included in the table are in thousands.

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	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Patents, net of accumulated amortization, Beginning of period	$ 432	$ 763
Patent costs capitalized	83	33
Amortization of patents	(62)	(86)
Write-offs of patents	(253)	(153)
Patents, net of accumulated amortization, End of period	$ 200	$ 557

In July 2008, the Company announced that it was taking certain actions to reduce its cost structure to preserve existing cash, including suspending the clinical validation study of its Version 2 technology and eliminating approximately eight positions. These cost reduction actions were deemed to be impairment indicators pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). After performing the requisite impairment analysis, the Company wrote off approximately $253,000 in capitalized patents related specifically to one of the components of its Version 2 technology that is not used in LabCorp s current ColoSure testing service.

During the three months ended March 31, 2007, the Company determined that it would likely not pursue commercialization of certain technologies and, accordingly, wrote off approximately $121,000 in capitalized patents related to these technologies. Capitalized patents written off during the three months ended March 31, 2007 were unrelated to intellectual property licensed to LabCorp for PreGen-Plus. During the three months ended June 30, 2007, a capitalized pending patent application, which is not critical to LabCorp s PreGen-Plus testing service, was not approved by the U.S. Patent and Trademark Office, and, accordingly, the Company wrote off approximately $32,000 in connection with this patent application.

The Company applies SFAS No. 144, which requires the Company to evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of long-lived assets and certain identifiable intangibles and goodwill may warrant revision or that the carrying value of these assets may be impaired.

Net Loss Per Share

Basic and diluted net loss per share is presented in conformity with SFAS No. 128, *Earnings per Share* (SFAS No. 128), for all periods presented. In accordance with SFAS No. 128, basic net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted average common shares outstanding during the period. Basic and diluted net loss per share are the same because all outstanding common stock equivalents have been excluded, as they are anti-dilutive.

The following potentially issuable common shares were not included in the computation of diluted net loss per share because they would have an anti-dilutive effect due to net losses for each period:

	June 30,	
(In thousands)	**2008**	**2007**

Shares issuable upon exercise of stock options	4,396	4,328
Shares issuable upon exercise of outstanding warrants	1,000	1,000
	5,396	5,328

Accounting for Stock-Based Compensation

The Company accounts for share-based payments to employees in accordance with SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which requires all share-based payments to employees, including grants of employee stock options and shares purchased under an employee stock purchase plan (if certain parameters are not met), to be recognized in the financial statements based on their fair values. Share-based payment transactions with parties other than employees are accounted for in accordance with EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

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Revenue Recognition

License fees License fees for the licensing of product rights on initiation of strategic agreements are recorded as deferred revenue upon receipt and recognized as revenue on a straight-line basis over the license period. On June 27, 2007, the Company entered into an amendment to its exclusive license agreement with LabCorp (the Second Amendment) that, among other modifications to the terms of the license, extended the exclusive license period from August 2008 to December 2010, subject to carve-outs for certain named organizations. Accordingly, the Company amortizes the remaining deferred revenue balance resulting from its license agreement with LabCorp at the time of the Second Amendment ($4.7 million) on a straight-line basis over the remaining exclusive license period, which ends in December 2010.

Product royalty fees The Company has licensed certain of its technologies, including improvements to such technologies, on an exclusive basis through December 2010 to LabCorp. LabCorp developed and commercially offered PreGen-Plus, a non-invasive stool-based DNA colorectal cancer screening service for the average-risk population based on the Company s Version 1 technology, from August 2003 through June 2008. In June 2008, LabCorp stopped offering PreGen-Plus. On July 14, 2008, LabCorp began to commercially offer ColoSure, its next generation non-invasive, stool-based DNA testing service for the detection of colorectal cancer in the average-risk population, which is based on certain of the Company s intellectual property. The Company will be entitled to the same royalty and milestone structure on any sales of ColoSure as it was entitled to on sales of PreGen-Plus.

Prior to the effective date of the Second Amendment, the Company s product royalty fees were based on a specified contractual percentage of LabCorp s cash receipts from performing PreGen-Plus tests. Accordingly, the Company recorded product royalty fees based on this specified percentage of LabCorp s cash receipts, as reported to the Company each month by LabCorp. Subsequent to the effective date of the Second Amendment, the Company s product royalty fees are based on a specified contractual percentage of LabCorp s net revenues from sales of PreGen-Plus through June 1, 2008, when LabCorp stopped offering PreGen-Plus, and from sales of ColoSure from and after July 2008. Accordingly, subsequent to the effective date of the Second Amendment, the Company records product royalty fees based on the specified contractual percentage of LabCorp s net revenues from its sales of such colorectal cancer screening tests, as reported to the Company each month by LabCorp. The current royalty rate is 15%, subject to an increase to 17% in the event that LabCorp achieves a specified significant threshold of annual net revenues from the sales of such colorectal cancer screening tests.

Additionally, pursuant to the Second Amendment, the Company will potentially be obligated to reimburse LabCorp for certain third-party royalty payments, as described in Note 4 below. To the extent the Company incurs liabilities in connection with this provision of the Second Amendment, the accretion of such liabilities will be recorded as a reduction in the product royalty fee line item in the Company s consolidated statements of operations.

Product revenue Product revenue from the sale of certain components of the Company s Effipure technology to LabCorp is recognized upon transfer of the components provided that title passes, the price is fixed or determinable and collection of the receivable is probable. LabCorp has indicated that Effipure is not used as a component in LabCorp s ColoSure offering.

Other revenue Revenue from milestone and other performance-based payments will be recognized as revenue when the milestone or performance is achieved and collection of the receivable is estimable and probable.

Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, establishes presentation and disclosure requirements for comprehensive income (loss). Comprehensive loss consists of net loss and the change in unrealized gains and losses on marketable securities. Comprehensive loss for the three and six months ended June 30, 2008 and 2007 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Net loss	$ (2,100)	$ (1,825)	$ (4,618)	$ (3,745)
Unrealized (loss) gain on marketable securities	(23)	7	(22)	6
Comprehensive loss	$ (2,123)	$ (1,818)	$ (4,640)	$ (3,739)

(3) FOURTH AMENDMENT TO LABCORP LICENSE AGREEMENT

On March 17, 2008, the Company entered into the fourth amendment (the Fourth Amendment) to its exclusive license agreement with LabCorp. Among other things, the Fourth Amendment further clarified certain license rights of the parties, amended LabCorp s termination rights relating to the failure to launch the Company s Version 2 technology and restricted certain of the Company s termination rights in the event the U.S. Food and Drug Administration (FDA) limits LabCorp s ability to market products that incorporate technology

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licensed to LabCorp under the amended license agreement. In addition, the Fourth Amendment eliminated certain of the Company s termination rights for a specified period of time during which LabCorp is not marketing any stool-based DNA test for colorectal cancer as a result of preparing for a commercial launch of a stool-based DNA test for colorectal cancer based on certain of the Company s intellectual property.

(4) CONTINGENCIES

Third Party Royalty Obligation

Pursuant to the terms of the Second Amendment, the Company will potentially be obligated to reimburse LabCorp for certain third-party royalty payments if LabCorp s third-party royalty rate is greater than a specified royalty rate during the measuring period, as outlined in the table below. The Company s obligation to pay LabCorp pursuant to this provision of the Second Amendment is based on LabCorp s sales volumes of colorectal cancer screening tests using the Company s technology during three separate measurement periods, as defined below. A significant increase in such sales volumes during any measurement period, as compared to historical PreGen-Plus sales volumes, could reduce the Company s potential obligation during any measurement period, while test volumes consistent with historical PreGen-Plus sales levels could result in aggregate payments to LabCorp totaling up to $3.5 million during the measurement periods. Until LabCorp s sales of colorectal cancer screening tests using the Company s technology increase to a level that would reduce this potential maximum obligation, if ever, the Company intends to record its estimated obligation under this provision of the Second Amendment as a reduction in the product royalty fee line item in its consolidated statements of operations, in accordance with EITF No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products)*. Based on sales volumes of PreGen-Plus through June 1, 2008 and anticipated sales volumes of ColoSure, as of June 30, 2008, the Company s had accrued a total of $2.0 million related to the total potential $3.5 million obligation to LabCorp, including the total potential $1.5 million obligation related to the first measurement period, which ends in December 2008, as well as $500,000 of the total potential $1.0 million obligation related to the second measurement period, which ends in December 2009. The Company recorded charges of $0.5 million and $0.8 million, respectively, during the three and six months ended June 30, 2008 in connection with this third-party royalty obligation. These charges were recorded under the caption Product royalty fees in the Company s consolidated statements of operations. This obligation is recorded in the Company s consolidated balance sheets under the caption Third-party royalty obligation. Future increases in this obligation, to the extent necessary, will continue to be recorded as charges to the product royalty revenue line item of the Company s consolidated statements of operations. Amounts included in the table are in thousands.

Measurement period Start Date	Measurement period End Date	Potential Minimum Third Party Royalty Obligation During Measurement Period	Potential Maximum Third Party Royalty Obligation During Measurement Period
June 28, 2007	December 31, 2008	$	$ 1,500
January 1, 2009	December 31, 2009		1,000
January 1, 2010	December 31, 2010		1,000
		$	$ 3,500

Employee Severance and Retention Agreements

On April 18, 2008, the Company entered into amended and restated employee retention agreements (the Agreements) with certain employees, including Jeffrey R. Luber, the Company s President and Chief Executive Officer, and Charles R. Carelli, Jr., the Company s Senior Vice President, Chief Financial Officer, Treasurer and Secretary. The Agreements supersede and replace the prior employee retention agreements entered into between the Company and Messrs. Luber and Carelli on October 23, 2006.

For personnel remaining employed by the Company after the July 2008 cost reduction initiations (described in Note 10 below), the total potential severance and other obligations upon the occurrence of certain triggering events, including a termination without cause following a change of control of the Company, was approximately $2.0 million at June 30, 2008. As of June 30, 2008, the Company has not recorded any amount related to the potential severance payments because no triggering events had occurred as of that date.

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(5) RESTRUCTURING

On August 31, 2007, the Company entered into a third amendment (the Third Amendment) to its exclusive license agreement with LabCorp that, among other things, added a potential $2.5 million milestone payment for which the Company may be eligible upon policy-level reimbursement approval from Medicare at a specified minimum reimbursement rate, inclusion of stool-based DNA screening in clinical practice guidelines and the achievement of certain increases in sales levels of ColoSure over a defined measuring period. The Third Amendment also provided that LabCorp will assume sole responsibility, at its expense, for all commercial activities related to LabCorp s stool-based DNA testing service, and provided that LabCorp would offer at-will employment to certain former personnel of the Company. In connection with the Third Amendment, the Company notified six employees of their termination from the Company (the 2007 Restructuring). The 2007 Restructuring was principally designed to eliminate the Company s sales and marketing functions to reduce costs and help preserve the Company s cash resources. In connection with the 2007 Restructuring, the Company recorded restructuring charges of approximately $0.8 million during the three months ended September 30, 2007, primarily related to one-time termination benefits arising under retention and severance agreements with each of the terminated employees.

Restructuring charges recorded during the third quarter of 2007 of $0.8 million included $0.6 million in severance and related benefit costs expected to be paid in cash through May 2008, and $0.2 million in non-cash stock-based compensation charges associated with extending the period of exercise for vested stock option awards for terminated employees.

During the fourth quarter of 2007, the Company entered into a sublease agreement (the Sublease Agreement) with INTRINSIX Corporation (the Subtenant) to sublease to the Subtenant approximately 11,834 square feet of rentable area in the Company s corporate headquarters. In connection with the Sublease Agreement, the Company recorded restructuring charges of approximately $0.4 million during the fourth quarter of 2007 (included opposite the caption Facility consolidation costs in the table below), which consist of approximately $0.3 million in future cash payments related to the difference between the Company s committed lease payments and the estimated sublease rental income under the Sublease Agreement and approximately $0.1 million of non-cash charges related to the write-off of leasehold improvements abandoned by the Company in connection with the Sublease Agreement. The Company s decision to enter into the Sublease Agreement was deemed to be an impairment indicator under SFAS No. 144. As a result of performing the impairment evaluations, asset impairment charges of $0.1 million were recorded to adjust the carrying value of the related leasehold improvements to their net realizable value. Facility consolidation costs also include one time real estate transaction fees in connection with the Sublease Agreement.

Amounts remaining in the 2007 Restructuring accrual at June 30, 2008, which are expected to be paid out through July 2010, are recorded under the caption Accrued expenses in the Company s condensed consolidated balance sheets.

The following table summarizes changes made to the restructuring accrual during the six months ended June 30, 2008 relating to the 2007 Restructuring and Sublease Agreement. Amounts included in the table are in thousands.

Type of Liability	Balance, December 31, 2007	Charges	Cash Payments	Non-cash Write-offs	Balance, June 30, 2008
Employee separation costs	$ 224	$ (7)	$ (217)	$	$
Facility consolidation costs	268		(62)		206
Total	$ 492	$ (7)	$ (279)	$	$ 206

As described in Note 10 below, the Company plans to record restructuring charges ranging from $200,000 to $300,000 during the third quarter of 2008 in connection with its July 2008 cost reduction initiatives. The Company is pursuing efforts to further reduce its costs and may record additional restructuring charges related to such reductions in future periods.

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(6) STOCK-BASED COMPENSATION

Stock-Based Compensation Plans

The Company maintains the 1995 Stock Option Plan (1995 Option Plan), the 2000 Stock Option and Incentive Plan (2000 Option Plan) and the 2000 Employee Stock Purchase Plan (Employee Stock Purchase Plan). Note 9 to the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, which has been filed with the SEC, includes a description of the Company s stock-based compensation plans.

Stock-Based Compensation Expense

The Company recorded $0.2 million and $0.5 million, respectively, in stock-based compensation during the three and six months ended June 30, 2008 in connection with the amortization of awards of common stock, restricted common stock and stock options granted to employees, non-employee directors and non-employee consultants. The Company recorded $0.7 million and $1.1 million, respectively, in stock-based compensation during the three and six months ended June 30, 2007 in connection with the amortization of employee and non-employee director stock option awards, stock options granted to non-employee consultants, common stock issued to a collaborator, and stock-based compensation expense related to the Company s 2007 401(k) match.

Determining Fair Value

Valuation and Amortization Method - The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model based on the assumptions in the table below. The estimated fair value of employee stock options is amortized to expense using the straight-line method over the vesting period.

Expected Term - The Company uses the simplified calculation of expected life, described in the SEC s Staff Accounting Bulletins 107 and 110, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected term. Using this method, the expected life is determined using the average of the vesting period and the contractual life of the stock options granted.

Expected Volatility - Expected volatility is based on the Company s historical volatility from the time of its initial public offering in January 2001 through the measurement date of the awards.

Risk-Free Interest Rate - The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Forfeitures - As required by SFAS No. 123(R), the Company records share-based compensation expense only for those awards that are expected to vest. The Company does not need to estimate forfeitures because all share based awards vest monthly.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model based on the assumptions in the following table.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Option Plan Shares				
Risk-free interest rates	(1)	(1)	2.80%	4.50%
Expected term (in years)	(1)	(1)	6	6
Expected volatility	(1)	(1)	70%	70%
Dividend yield	(1)	(1)	0%	0%
Weighted average fair value per share of options granted during the period	(1)	(1)	$1.17	$1.83
ESPP Shares				
Risk-free interest rates	(1)	(1)	(1)	5.10 - 5.17%
Expected term (in years)	(1)	(1)	(1)	0.5 - 2
Expected volatility	(1)	(1)	(1)	70%
Dividend yield	(1)	(1)	(1)	0%
Weighted average fair value per share of stock purchase rights granted during the period	(1)	(1)	(1)	$1.08

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(1) The Company did not issue stock options or stock purchase rights under its stock-based compensation plans during the periods indicated.

Stock Option Activity

A summary of stock option activity under the 1995 Option Plan and the 2000 Option Plan during the six months ended June 30, 2008 is as follows:

Options **(Aggregate intrinsic value in thousands)**	**Shares**		**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**		**Aggregate Intrinsic Value (1)**
Outstanding, January 1, 2008	3,996,688	$	4.88	4.8		
Granted	498,600	$	1.83			
Exercised	(14,666)	$	0.39			
Cancelled	(84,373)	$	6.16			
Outstanding, June 30, 2008	4,396,249	$	4.52	4.9	$	80
Exercisable, June 30, 2008	3,329,283	$	5.19	3.5	$	69
Vested and expected to vest, June 30, 2008	4,329,906	$	4.52	4.9	$	80

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(1) The aggregate intrinsic value of options outstanding, as well as options vested and expected to vest, at June 30, 2008 is calculated as the difference between the exercise price of the underlying options and the market price of the Company s common stock for the 54,204 options that had exercise prices that were lower than the $1.80 market price of our common stock at June 30, 2008. The aggregate intrinsic value of options exercisable at June 30, 2008 is calculated as the difference between the exercise price of the underlying options and the market price of the Company s common stock for the 47,953 options that had exercise prices that were lower than the $1.80 market price of our common stock at June 30, 2008.

As of June 30, 2008, there was $1.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in forfeitures. The Company expects to recognize that cost over a weighted average period of 1.7 years.

(7) COLORECTAL CANCER SCREENING GUIDELINES

Professional colorectal cancer screening guidelines in the United States, including those of the American Cancer Society (ACS), the American College of Gastroenterology and the American Gastroenterological Association, recommend regular screening by a variety of methods. Historically, such recommendations consisted of colonoscopy, flexible sigmoidoscopy, double contrast barium enema and fecal occult blood testing (FOBT), as well as combinations of some of these methods. On March 5, 2008, the ACS, the U.S. Multi-Society Task Force on Colorectal Cancer, a consortium of several organizations including representatives of the American College of Gastroenterology, American Gastroenterological Association, American Society for Gastrointestinal Endoscopy and the American College of Physicians/Society of Internal Medicine (the MSTF-CRC), and the American College of Radiology announced that non-invasive, stool-based DNA screening technology has been included in the updated national colorectal cancer screening guidelines as a screening option for the detection of colorectal cancer in average risk, asymptomatic individuals age 50 and above. These new guidelines now divide colorectal cancer screening into two groups, one including non-invasive methods for the early detection of colorectal cancer and the other including invasive techniques for the prevention and early detection of colorectal cancer. Non-invasive technologies include fecal occult blood testing and stool-based DNA screening for individuals unwilling or unable to use invasive screening procedures. Invasive procedures include colonoscopy, flexible sigmoidoscopy, CT colonography, and double contrast barium enema and, according to the new guidelines, are designed to detect both early cancer and adenomatous polyps and should be encouraged if resources are available and patients are willing to undergo and invasive test. While the Company views inclusion of its stool-based DNA technology in the ACS and MSTF-CRC guidelines as a critical first step toward building sufficient demand for any stool-based DNA screening test for colorectal cancer, the Company believes that FDA clearance for its technologies, and reimbursement from the Centers for Medicare and Medicaid Services and other third-party payors will be necessary to achieve any significant increase in demand for its technologies. In addition, the ACS and MSTF-CRC guidelines indicated that new technologies and new technical versions of approved technologies need only detect a majority of colorectal cancers in a screening population to meet guidelines criteria. The Company has not performed a stand-alone colorectal cancer screening study of LabCorp s ColoSure test and there can be no assurance that the guidelines groups will agree that existing studies using our Version 2 technologies, and any related data supporting ColoSure, will meet the requirements set forth in the current ACS and MSTF-CRC guidelines for inclusion of ColoSure in future guidelines of such organizations. If the guidelines groups indicate a lack of acceptance for these more advanced technologies, such action could have a materially adverse impact on the Company s business.

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(8) REGULATORY STATUS

From August 2003 through June 2008, LabCorp offered its PreGen-Plus testing service, which included the Effipure component from the Company, as an in-house developed laboratory test, or homebrew testing service. On October 11, 2007, the FDA sent the Company a warning letter (the Warning Letter) with respect to the PreGen-Plus testing service, indicating that PreGen-Plus is a Class III medical device and that it cannot be commercially distributed without an appropriate pre-market approval or clearance from the FDA. The Company s Version 1 technology was the basis for LabCorp s PreGen-Plus testing service. Effective June 1, 2008, LabCorp stopped offering PreGen-Plus and indicated that it had discontinued its use of Effipure.

In addition to the Company s Version 1 technology underlying the PreGen-Plus testing service that was offered by LabCorp, the Company has also developed a Version 2 colorectal cancer screening technology that it believes has greater sensitivity and is more cost-effective than Version 1. In April 2008, the Company began to focus its regulatory efforts on pursuing FDA clearance for Version 2 of its technology, a two-marker version that the Company believes offers greater sensitivity and is more cost-effective than its earlier, 23 marker Version 1 technology. In this regard, in April 2008, the Company submitted a pre-Investigational Device Exemption (pre-IDE) request to the FDA for its Version 2 technology. The objective of the pre-IDE process was to seek concurrence from the FDA that a 510(k) submission followed by a *de novo* classification request is an appropriate regulatory path for the Company s Version 2 technology and that the clinical and other studies proposed in its Version 2 pre-IDE submission would likely support such a *de novo* regulatory path.

On July 14, 2008, LabCorp announced that it would begin offering a new laboratory-developed test called ColoSure, a single-marker test that is based on certain of the Company s Version 2 intellectual property and that does not use the Effipure component. Also in July 2008, the Company confirmed with the FDA the clinical performance characteristics and the minimum number of average-risk colorectal cancer samples that would be required for validation of its Version 2 stool-based DNA technology for colorectal cancer screening. In addition, based on its discussions with the FDA, the Company believes that the *de novo* pathway would be the appropriate regulatory path for its Version 2 technology. The Company estimates that total costs to complete its Version 2 validation studies and the related regulatory submission process would range from $6.5 million to $8.5 million. The FDA may ultimately determine that a pre-market approval application (PMA) is the appropriate path forward for the Company with respect to Version 2 of its stool-based DNA technology instead of a *de novo* pathway, or that additional samples, and a more expensive and time-consuming study or studies may be required for clearance or approval. The Company believes that the studies required in connection with any approval or clearance of its Version 2 technology, regardless of whether the regulatory pathway is *de novo* classification or a PMA, will be material in cost and time-intensive. There can be no assurance that FDA will ultimately approve a *de novo* classification request or approve a PMA.

As described in Note 10, in July 2008, the Company further reduced its cost structure by suspending the clinical validation study and other studies for its Version 2 technology and eliminating eight positions within the Company. Because the Company does not currently have sufficient funds to complete any clinical validation or other FDA-related study of its Version 2 technology, it will need to raise additional capital through a strategic transaction, debt or equity financing, or third-party collaboration, if any, and/or some combination of any of the foregoing in order to fund any FDA regulatory clearance or approval process of its Version 2 technology. There can be no assurance that the Company will be successful in securing any additional capital to pursue the clinical validation study for its Version 2 technology under any potential strategic transaction or capital structure. If the Company is unable to finance the requisite clinical and other studies of its Version 2 technology, it will not be able to complete and submit its application to seek FDA approval or clearance of its Version 2 technology.

(9) FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued Statement No. 157, *Accounting for Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company adopted SFAS No. 157 on January 1, 2008 and it did not have any impact on its consolidated results of operations, financial position or cash flows.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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The three levels of the fair value hierarchy established by SFAS 157 in order of priority are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 Unobservable inputs that reflect the Company s assumptions about the assumptions that market participants would use in pricing the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In accordance with the disclosure provisions of SFAS No. 157, the following table presents the Company s fair value measurements as of June 30, 2008 along with the level within the fair value hierarchy prescribed by SFAS No. 157 in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). Cash and cash equivalents are recorded at cost, which approximates fair value. Amounts in the table are in thousands.

		Fair Value Measurement at June 30, 2008 Using:		
Description	**Fair Value at June 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**

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Results of Operations

The following table presents certain financial data as a percentage of total revenues:

	Years Ended December 31,		
	2010	2009	2008
Revenues:			
License	45 %	43 %	43 %
Service	55	57	57
Total revenues	100	100	100
Cost of revenues:			
License	1	1	1
Service	15	15	18
Amortization of acquired technology	2	2	1
Total cost of revenues	18	18	20
Gross profit	82	82	80
Operating expenses:			
Research and development	16	16	16
Sales and marketing	38	38	39
General and administrative	7	8	8
Amortization of intangible assets	2	2	1
Facilities restructuring charges	—	—	1
Acquisitions and other	—	—	—
Patent related litigation proceeds net of patent contingency accruals	—	—	(3)
Total operating expenses	63	64	62
Income from operations	19	18	18
Interest income and other, net	—	—	2
Income before income taxes	19	18	20
Income tax provision	6	5	8
Net income	13 %	13 %	12 %

Revenues

Our total revenues were $650.1 million in 2010 compared to $500.7 million in 2009 and $455.7 million in 2008, representing growth of $149.4 million (or 30%) in 2010 from 2009 and $45.0 million (or 10%) in 2009 from 2008. The increases were due to an increase in the number of license transactions and the average sales price of those transactions, growth in our customer installed base, and revenues derived from our strategic acquisitions of complementary businesses and products. In 2010, less than 7% of our total revenues and less than 30% of our growth in revenues were due to revenue derived from our 2010 acquisitions. See Note 20. Acquisitions of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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The following table and discussion compare our revenues by type for the three years ended December 31, 2010:

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
License	$295,110	$214,322	$195,769	38 %	9 %
Service revenues:					
Maintenance	255,417	215,315	186,212	19 %	16 %
Consulting, education, and other	99,549	71,056	73,718	40 %	(4)%
Total service revenues	354,966	286,371	259,930	24 %	10 %
Total revenues	$650,076	$500,693	$455,699	30 %	10 %

License Revenues

Our license revenues increased to $295.1 million (or 45% of total revenues) in 2010 compared to $214.3 million (or 43% of total revenues) in 2009, and $195.8 million (or 43% of total revenues) in 2008, representing growth of $80.8 million (or 38%) in 2010 from 2009, and $18.6 million (or 9%) in 2009 from 2008. The increase in license revenues in 2010 from 2009 was primarily due to an increase in both the volume of license transactions and the average sales price of those transactions, resulting in growth of license revenues across all major geographic regions. The increase in license revenues in 2009 from 2008 was primarily due to an increase in the volume of transactions, partially offset by a decrease in the average size of the transactions. Our growth in license revenues reflects the continued market acceptance of our products beyond data warehousing and the adoption of new technologies.

The number of transactions greater than $1.0 million increased to 53 in 2010 from 28 and 21, in 2009 and 2008, respectively. The total number of new customers that we added in 2010, 2009, and 2008, including the number of customers added through acquisitions, was 351, 479, and 464, respectively. We had license revenue transactions with 1,292 existing customers in 2010 compared to 1,020 and 927 in 2009 and 2008, respectively.

We offer two types of upgrades: (1) upgrades that are not part of the post-contract services for which we charge customers an additional fee, and (2) upgrades that are part of the post-contract services that we provide to our customers at no additional charge, when and if available. The average transaction amount for orders greater than $100,000 in 2010, including upgrades, for which we charge customers an additional fee, increased to $419,000 from $360,000 and $314,000 in 2009 and 2008, respectively.

Service Revenues

Maintenance Revenues

Maintenance revenues increased to $255.4 million (or 39% of total revenues) in 2010 from $215.3 million (or 43% of total revenues) in 2009, and $186.2 million (or 41% of total revenues) in 2008, representing growth of $40.1 million (or 19%) in 2010 from 2009, and $29.1 million (or 16%) in 2009 from 2008. The increases in maintenance revenues in 2010 and 2009 were primarily due to the increasing size of our installed customer base, including those acquired through our recent acquisitions.

We expect maintenance revenues to increase in 2011 from the 2010 levels due to our growing installed customer base.

Consulting and Education, and Other Services Revenues

Consulting, education, and other services revenues were $99.5 million (or 15% of total revenues) in 2010, $71.1 million (or 14% of total revenues) in 2009, and $73.7 million (or 16% of total revenues) in 2008. The $28.4 million (or 40%) increase in 2010 compared to 2009 was primarily due to an increase in consulting revenues in North America as a result of higher customer demand, increased utilization rates, and increased subscriptions.

The $2.7 million (or 4%) decrease in 2009 compared to 2008 was primarily due to our customers' trend toward deferring spending and reducing education and consulting budgets. The decline occurred primarily in the first half of 2009 and stabilized subsequently during the second half as the macroeconomic environment improved.

We expect our revenues from consulting, education, and other services to increase in 2011 from the 2010 levels.

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International Revenues

Our international revenues were $218.8 million (or 34% of total revenues) in 2010, $178.8 million (or 36% of total revenues) in 2009, and $158.6 million (or 35% of total revenues) in 2008, representing an increase of $40.0 million (or 22%) in 2010 from 2009 and an increase of $20.2 million (or 13%) in 2009 from 2008. International revenues in all major geographic regions increased in 2010 compared to 2009.

The $40.0 million (or 22%) increase in 2010 from 2009 was primarily due to an increase in international license revenues in Europe and Asia Pacific and an increase in maintenance revenue in all major geographic regions as a result of a larger and growing installed customer base.

The $20.2 million (or 13%) increase in 2009 from 2008 was primarily due to an increase in international maintenance revenue as a result of a larger and growing installed customer base, and an increase in international license and service revenues in Latin America and in Europe.

We expect international revenues as a percentage of total revenues in 2011 to be relatively consistent with 2010.

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

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

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. The increase, however, was less pronounced at the end of 2009. Aggregate backlog and deferred revenues at December 31, 2010 were approximately $215.9 million compared to $171.8 million at December 31, 2009. This increase in 2010 was primarily due to an increase in deferred maintenance revenues and an increase in license backlog. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of future results.

Cost of Revenues

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Cost of license revenues	$4,485	$3,135	$3,291	43%	(5)%
Cost of service revenues	100,602	76,549	80,287	31%	(5)%
Amortization of acquired technology	13,342	7,950	4,125	68%	93%
Total cost of revenues	$118,429	$87,634	$87,703	35%	—%
Cost of license revenues, as a percentage of license revenues	2%	1%	2%	1%	(1)%
Cost of service revenues, as a percentage of service revenues	28%	27%	31%	1%	(4)%

Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, production costs and personnel costs. Cost of license revenues was $4.5 million (or 2% of license revenues) in 2010, $3.1 million (or 1% of license revenues) in 2009, and $3.3 million (or 2% of license revenues) in 2008. The $1.4 million (or 43%) increase in 2010 from 2009

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was primarily due to a proportional increase in license revenues. The $0.2 million (or 5%) decrease in 2009 from 2008 was primarily due to the smaller proportion of royalty based products being shipped in 2009.

We expect that our cost of license revenues as a percentage of license revenues in 2011 to be consistent with or slightly higher than 2010 levels.

Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting, education, and other services revenues. Our cost of maintenance revenues consists primarily of costs associated with customer service personnel expenses and royalty fees for maintenance related to third-party software providers. Cost of consulting revenues consists primarily of personnel costs and expenses incurred in providing consulting services at customers' facilities. Cost of education services revenues consists primarily of the costs of providing education classes and materials at our headquarters, sales and training offices, and customer locations. Cost of other services revenue consists primarily of fees paid to postal authorities and other third parties for content and hosting costs for our subscription services. Cost of service revenues was $100.6 million (or 28% of service revenues) in 2010, $76.5 million (or 27% of service revenues) in 2009, and $80.3 million (or 31% of service revenues) in 2008.

The $24.1 million (or 31%) increase in 2010 from 2009 was primarily due to a $13.6 million increase in personnel related costs, a $6.0 million increase in subcontractor fees, a $2.3 million increase in reimbursable expenses, and a $0.5 million increase in stock compensation. The majority of these increases were driven by increased demand for our consulting and education services in 2010 compared to 2009.

The $3.7 million (or 5%) decrease in 2009 from 2008 was primarily due to a $1.6 million reduction in reimbursable expenses, a $1.2 million reduction in subcontractor fees, and $1.1 million reduction in personnel related costs related to consulting and education services, offset by a $0.2 million increase in stock-based compensation. The reduction in consulting and education services costs is as a result of corresponding lower revenues in consulting and education services in 2009 compared to 2008.

We expect that our cost of service revenues, in absolute dollars, to increase in 2011 from the 2010 levels, mainly due to headcount increases associated with increased service revenues. We expect, however, the cost of service revenues as a percentage of service revenues in 2011 to remain relatively consistent with 2010 levels.

Amortization of Acquired Technology

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology totaled $13.3 million, $8.0 million, and $4.1 million in 2010, 2009, and 2008, respectively. The $5.4 million (or 68%) increase in 2010 from 2009 is the result of amortization of certain technologies that we acquired from the acquisitions of Applimation, AddressDoctor, Agent Logic, Siperian, and 29West in 2009 and 2010. The $3.8 million (or 93%) increase in 2009 from 2008 was the result of amortization of certain technologies that we acquired from the acquisitions of Identity Systems, Applimation, AddressDoctor, and Agent Logic in 2008 and 2009.

We expect the amortization of acquired technology to be approximately $18.9 million in 2011 before the effect of any potential future acquisitions subsequent to December 31, 2010.

Operating Expenses

Research and Development

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Research and development	$106,043	$78,352	$72,522	35%	8%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, consulting services, facilities, and related overhead costs associated with the development of new products, enhancement and localization of existing products, quality assurance, and development of documentation for our products. Research and development expenses were $106.0 million (or 16% of total revenues), $78.4 million (or 16% of total revenues), and $72.5 million (or 16% of total revenues), for 2010, 2009, and 2008, respectively. All 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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The $27.7 million million (or 35%) increase in 2010 from 2009 was primarily due to a $24.2 million increase in personnel related costs, partially related to acquisitions, and a $3.5 million increase in general overhead costs. The increase in personnel-related costs includes an increase in headcount in 2010 from 2009 and additional stock-based compensation costs.

The $5.8 million (or 8%) increase in 2009 from 2008 was primarily due to a $7.3 million increase in personnel related costs, partially related to acquisitions, partially offset by a $1.5 million reduction in general overhead costs. The increase in personnel-related costs includes an increase in headcount in 2009 from 2008 and additional stock-based compensation costs.

We expect research and development expenses as a percentage of total revenues in 2011 to remain relatively consistent with 2010 levels.

Sales and Marketing

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Sales and marketing	$245,498	$192,747	$177,339	27 %	9 %

Our sales and marketing expenses consist primarily of personnel costs, including commissions and bonuses, as well as costs of public relations, seminars, marketing programs, lead generation, travel, and trade shows. Sales and marketing expenses were $245.5 million (or 38% of total revenues), $192.7 million (or 38% of total revenues), and $177.3 million (or 39% of total revenues) for 2010, 2009, and 2008, respectively. The sales and marketing expenses as a percentage of total revenues did not change for 2010 compared to 2009, and declined by 1% for 2009 compared to 2008.

The $52.8 million (or 27%) increase from 2009 to 2010 was primarily due to a $45.8 million increase in personnel-related costs, which include sales commissions, stock-based compensation, and headcount growth from 611 in 2009 to 720 in 2010.

The $15.4 million (or 9%) increase from 2008 to 2009 was primarily due to a $13.0 million increase in personnel-related costs, which include sales commissions, stock-based compensation, and headcount growth from 572 in 2008 to 611 in 2009.

We expect sales and marketing expenses as a percentage of total revenues in 2011 to remain relatively consistent with or decrease slightly from 2010 levels. The sales and marketing expenses as a percentage of total revenues may fluctuate from one period to the next due to the timing of hiring new sales and marketing personnel, our spending on marketing programs, and the level of the commission expenditures, in each period.

General and Administrative

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
General and administrative	$46,273	$41,449	$37,411	12 %	11 %

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 were $46.3 million (or 7% of total revenues), $41.4 million (or 8% of total revenues), and $37.4 million (or 8% of total revenues) for the years ended December 31, 2010, 2009, and 2008, respectively. The general and administrative expenses as percentage of total revenues declined by 1% for the year ended December 31, 2010 mainly due to benefits of scale as our revenues have increased proportionately more than our general and administrative expenses, as well as implementation of certain cost containment programs.

General and administrative expenses increased by $4.8 million (or 12%) in 2010 from 2009. The increase over 2009 was driven by an increase in personnel-related costs (including stock-based compensation) of $6.0 million offset by a $1.5 million decrease in outside services. The increase in personnel-related costs of $6.0 million was due to headcount growth in 2010 from 2009 and additional expenses related to performance based bonuses and stock-based compensation.

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General and administrative expenses increased by $4.0 million (or 11%) in 2009 from 2008. The increase over 2008 was driven by an increase in personnel-related costs of $2.2 million and a $2.7 million increase in outside services as a result of legal fees for patent litigation and acquisition related costs. This increase was partially offset by a $0.9 million decrease in bad debt expense. The increase in personnel-related costs of $2.2 million was due to headcount growth in 2009 from 2008 and additional expenses related to performance based bonuses and stock-based compensation.

We expect general and administrative expenses as a percentage of total revenues in 2011 to remain relatively consistent with or decrease slightly from 2010 levels.

Amortization of Intangible Assets

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2,009 to 2010	2,008 to 2009
	(In thousands, except percentages)				
Amortization of intangible assets	$9,539	$10,051	$4,575	(5)%	120 %

Amortization of intangible assets is the amortization of customer relationships and vendor relationships acquired, trade names, and covenants not to compete through prior business acquisitions. Amortization of intangible assets were $9.5 million, $10.1 million, and $4.6 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The decrease of $0.5 million in amortization of intangible assets for the year ended December 31, 2010 compared to 2009 was primarily due to certain intangibles from prior acquisitions that were fully amortized during 2010.

The increase of $5.5 million in amortization of intangible assets for the year ended December 31, 2009 compared to 2008 was the result of amortization of intangibles that we acquired from the acquisitions of Identity Systems, PowerData, Applimation, AddressDoctor, and Agent Logic in 2008 and 2009.

We expect amortization of the remaining intangible assets in 2011 to be approximately $7.7 million, before the impact of any amortization for any possible intangible assets acquired as part of the pending or any future acquisitions subsequent to December 31, 2010.

Facilities Restructuring Charges

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Facilities restructuring charges	$1,133	$1,661	$3,018	(32)%	(45)%

In 2010, we recorded $1.1 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included primarily $2.4 million of accretion charges, offset by an adjustment of $1.5 million due to changes in our assumed sublease income.

In 2009, we recorded $1.7 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included primarily $2.8 million of accretion charges, offset by an adjustment of $1.3 million due to changes in our assumed sublease income.

In 2008, we recorded $3.0 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included primarily $3.5 million of accretion charges, offset by an adjustment of $0.6 million due to changes in our assumed sublease income.

As of December 31, 2010, $38.9 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 for facilities included in the 2004 Restructuring Plan amounted to $13.2 million

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in 2010, $11.7 million in 2009, and $11.1 million in 2008. Actual future cash requirements may differ from the restructuring liability balances as of December 31, 2010, if there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates.

2001 Restructuring Plan. Net cash payments for facilities included in the 2001 Restructuring Plan amounted to $1.6 million in 2010, $1.5 million in 2009, and $1.6 million in 2008. Actual future cash requirements may differ from the restructuring liability balances as of December 31, 2010 if we are unable to continue subleasing the excess leased facilities, there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates.

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 $7 to $11 million annually compared to 2004, after accretion charges, and we anticipate that they will continue through 2013.

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 11. Facilities Restructuring Charges of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Acquisitions and Other

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Acquisitions and other	$1,326	$(570)	$390	333%	(246)%

In 2010, acquisition and other expenses of $1.3 million consisted of a $2.3 million reduction in fair value of an acquisition liability offset by $3.6 million in charges. The $3.6 million in charges include $2.2 million for legal and bankers' fees, $1.1 million for write-off of certain lease liabilities and leasehold improvements, and $0.3 million for severance payments to certain employees.

In 2009, acquisition and other expenses include a $0.6 million reduction in fair value of an acquisition liability.

In 2008, in conjunction with our acquisition of Identity Systems, we recorded in-process research and development (IPR&D) charges of $0.4 million. The IPR&D 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.

Patent Related Litigation Proceeds Net of Patent Contingency Accruals

We recorded $11.5 million for patent litigation proceeds net of accruals for patent litigation in 2009.

Interest Income and Other, Net

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Interest income	$3,904	$5,867	$14,092	(33)%	(58)%
Interest expense	(6,568)	(6,602)	(7,221)	(1)%	(9)%
Other income, net	1,978	1,184	866	67%	37%
Interest and other income (expense), net	$(686)	$449	$7,737	(253)%	(94)%

Interest and other income (expense), net consists primarily of interest income earned on our cash, cash equivalents, and short-term investments, as well as foreign exchange transaction gains and losses, and interest expenses. Interest and other income

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(expense), net was $(0.7) million, $0.4 million, and $7.7 million in 2010, 2009, and 2008, respectively.
The decrease of $1.1 million (or 253%) in 2010 from 2009 was primarily due to a $2.0 million decrease in interest income due primarily to lower investment yields and, to a lesser degree, a decline in the average portfolio balance, a $0.5 million decrease in foreign exchange gains, a decrease of $0.3 million of gain on early extinguishment of debt, and a $0.1 million decrease in gain on disposition of investment securities, which were partially offset by a $1.8 million gain recognized from the sale of our investment in an equity interest.
The decrease of $7.3 million (or 94%) in 2009 from 2008 was primarily due to a $8.2 million decrease in interest income due to lower investment yields, a decrease of $0.7 million of gain on early extinguishment of debt, partially offset by $0.6 million decrease in interest expense due to the repurchase of $20.0 million Convertible Senior Notes in the first quarter of 2009, $0.3 million increase in gain on disposition of securities, $0.2 million increase in foreign exchange gains, $0.2 million decrease in loss related to liquidation of a branch office, and $0.3 million decrease in other expenses.

Income Tax Provision

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Income tax provision	$34,825	$25,607	$35,993	36 %	(29)%
Effective tax rate	29 %	29 %	39 %	— %	(10)%

Our effective tax rates were 29%, 29%, and 39% for 2010, 2009, and 2008, respectively. The effective tax rate of 29% for 2010 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the recognition of current year research and development credits, and a prior year tax return true-up offset by compensation expense related to non-deductible stock-based compensation and the accrual of reserves related to uncertain tax positions. We have not provided for residual U.S. taxes in all of these lower-tax jurisdictions since we intend to indefinitely reinvest these earnings offshore.
The effective tax rate of 29% for 2009 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the recognition of current year research and development credits and previously unrealized foreign tax credits and a prior year tax return true-up offset by compensation expense related to non-deductible stock-based compensation, and agreed upon audit assessments with the Internal Revenue Service, as well as the accrual of reserves related to uncertain tax positions.
The effective tax rate of 39% for 2008 differed from the federal statutory rate of 35% primarily due to the nondeductibility of stock-based compensation as well as the accrual of reserves related to uncertain tax positions offset by the tax credits and tax rate benefits of certain earnings from our operations in lower-tax jurisdictions throughout the world.

Our effective tax rate in 2011 will be highly dependent on the result of our international operations, the execution of business combinations, the outcome of various tax audits, and the possibility of changes in tax law.

Liquidity and Capital Resources
We have funded our operations primarily through cash flows from operations and equity and debt offerings in the past. As of December 31, 2010, we had $470.9 million in available cash and cash equivalents and short-term investments. Our primary sources of cash are the collection of accounts receivable from our customers and proceeds from the exercise of stock options and stock purchased under our employee stock purchase plan. In addition, as of December 31, 2010, we had $220.0 million available for borrowing under the Credit Agreement discussed below. Our uses of cash include payroll and payroll-related expenses and operating expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment,

repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, repurchase our Convertible Senior Notes, and acquire businesses and technologies to expand our product offerings.

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The following table summarizes our cash flows for 2010, 2009, and 2008 (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Cash provided by operating activities	$131,828	$76,869	$99,895
Cash used in investing activities	$(132,065)	$(117,032)	$(82,867)
Cash provided by (used in) financing activities	$52,786	$18,332	$(32,094)

Operating Activities: Cash provided by operating activities in 2010 was $131.8 million, representing an increase of $55.0 million from 2009. This increase resulted primarily from a $22.1 million increase in net income, a $15.0 million increase in adjustments for non-cash expenses, a $23.8 million increase in deferred revenues, a $19.1 million increase in accounts payable and accrued liabilities, and a $3.5 million decrease in prepaids and other assets, which were offset by an $8.0 million increase in accounts receivable due to a higher amount of billings which occurred toward the end of 2010 and a $20.6 million decrease in income taxes payable. We recognized the excess tax benefits from stock-based compensation of $22.9 million during the year ended December 31, 2010. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made cash payments for taxes in different jurisdictions for $23.3 million during the year ended December 31, 2010. Our "days sales outstanding" in accounts receivable increased from 67 days at December 31, 2009 to 68 days at December 31, 2010, due to a slightly higher amount of billings which occurred toward the end of 2010, compared to 2009. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base. Our operating cash flows will also be impacted in the future by the timing of payments to our vendors and payments for taxes.

Cash provided by operating activities in 2009 was $76.9 million, representing a decrease of $23.0 million from 2008. This decrease resulted primarily from an increase in accounts receivable due to a higher amount of billings which occurred toward the end of 2009 and a decrease in income taxes payable, payments to reduce our accrual for excess facilities and accrued liabilities, and excess tax benefits from stock-based compensation. We recognized the excess tax benefits from stock-based compensation for $8.7 million during the year ended December 31, 2009. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made cash payments for taxes in different jurisdictions for $17.2 million during the year ended December 31, 2009. Our "days sales outstanding" in accounts receivable increased from 64 days at December 31, 2008 to 67 days at December 31, 2009, due to a higher amount of billings which occurred toward the end of 2009, compared to 2008. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base. Our operating cash flows will also be impacted in the future by the timing of payments to our vendors and payments for taxes.

Cash provided by operating activities in 2008 was $99.9 million, representing an increase of $17.9 million from 2007. This increase resulted primarily from a $1.4 million increase in net income (adjusted for non-cash expenses), an increase in accounts receivable cash collections, an increase in income taxes payable, and an increase in accrued liabilities. These increases were offset by payments to reduce our accrual for excess facilities and excess tax benefits from stock-based compensation. We recognized the excess tax benefits from stock-based compensation for $5.1 million during the year ended December 31, 2008. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made cash payments for taxes in different jurisdictions for $25.5 million during the year ended December 31, 2008. Our "days sales outstanding" in accounts receivable increased from 58 days at December 31, 2007 to 64 days at December 31, 2008, due to a higher amount of billings which occurred toward the end of 2008, compared to 2007. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base.

Investing Activities: Net cash used in investing activities were $132.1 million, $117.0 million, and $82.9 million in 2010, 2009, and 2008, respectively. We acquire property and equipment in our normal course of business. The amount and timing of these purchases and the related cash outflows in future periods depend on a number of factors, including the hiring of employees, the rate of upgrade of computer hardware and software used in our business, as well as our business outlook.

We have identified our investment portfolio as "available for sale," and our investment objectives are to preserve principal and provide liquidity while maximizing yields without significantly increasing risk. We may sell an investment at any time if the credit rating of the investment declines, the yield on the investment is no longer attractive, or we need additional cash. We invest only in money market funds and marketable debt securities. 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. Due to the nature of these transactions, it is difficult to predict the amount and timing of such cash requirements to complete such transactions. We may be required to raise additional funds to complete future acquisitions.

In March 2008, we invested $3.0 million in the preferred stock of a privately held company that we accounted for on a cost basis. In May 2008, we acquired all of the issued and outstanding shares of Identity Systems, a Delaware corporation and a wholly owned subsidiary of Intellisync Corporation, for $85.6 million in cash, including transaction costs of $0.9 million and acquired cash of $5.8 million. In October 2008, Informatica Nederland B.V., a wholly owned subsidiary of Informatica, purchased all of the issued and outstanding shares of PowerData, a company organized under the laws of Spain for $7.1 million in cash, including transaction costs of $0.4 million.

In February 2009, we acquired all the capital stock of Applimation, a privately held company, in a cash merger transaction valued at approximately $37.2 million (including $1.6 million retention bonuses). In June 2009, we acquired all of the capital stock of AddressDoctor for $27.8 million. As part of the acquisition purchase price, we wrote off $0.3 million in prepaid royalties to AddressDoctor. In September 2009, we acquired all the capital stock of Agent Logic, which specializes in the development and marketing of complex event processing software which supports security initiatives in highly complex environments, for $35 million, of which $6.1 million is held in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by Agent Logic. The escrow fund will remain in place for a period of 18 months, although a portion of the escrow funds were paid out in September 2010.

In January 2010, we acquired Siperian, a privately-held company, in a cash merger transaction valued at approximately $130 million, of which approximately $18.3 million was placed in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by Siperian. As a result of this acquisition, we assumed certain facility leases and certain liabilities and commitments. The escrow fund will remain in place until July 28, 2011, although a portion of the escrow funds were paid out in February 2011.

In February 2010, we made a $1.5 million investment in the preferred stock of another privately-held company, which was classified as Level 3 for fair value measurement purposes.

In March 2010, we acquired 29West, a privately-held company, in a stock purchase transaction valued at approximately $50 million, of which approximately $7 million was placed in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by 29West. The escrow fund will remain in place until September 22, 2011.

In December 2010, we paid $2.0 million to acquire the software technology assets of a privately-held company, and we may pay up to an additional $1.2 million in consideration if certain license order thresholds are met by December 31, 2011.

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 in 2010 was $52.8 million due to the proceeds received from the issuance of common stock to option holders and participants of our ESPP program for $57.6 million and $22.9 million of excess tax benefits from stock-based compensation. These amounts were offset by repurchases and retirement of our common stock for $23.8 million, withholding taxes for restricted stock units net share settlement of $2.0 million, and payment of issuance costs on the credit facility of $1.9 million.

Net cash provided by financing activities in 2009 was $18.3 million due to the proceeds we received from the issuance of common stock to option holders and participants of our ESPP program for $41.7 million and $8.7 million of excess tax benefits from stock-based compensation. These amounts were offset by repurchases and retirement of our Convertible Senior Notes and our common stock for $19.2 million and $12.8 million, respectively.

Net cash used in financing activities in 2008 was $32.1 million due to repurchases and retirement of our common stock for $57.0 million and our Convertible Senior Notes for $7.8 million. These repurchases were offset by the issuance of common stock to option holders and to participants of our ESPP program for $27.6 million, and $5.1 million of excess tax benefits from stock-based compensation.

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 April 2007, Informatica's Board of Directors authorized a stock repurchase program for up to an additional $50.0 million of our common stock. In April 2008, Informatica's Board of Directors authorized an additional $75.0 million of its common stock for the stock repurchase program. In October 2008, Informatica's Board of Directors approved expanding the repurchase program to include the repurchase, from time to time, of a portion of its outstanding Convertible Senior Notes (the "Notes") due in 2026

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in privately negotiated transactions with holders of the Notes. In January 2010, our Board of Directors authorized an additional $50.0 million for the repurchase of our common stock and Notes. This repurchase program does not have an expiration date.

From April 2007 to December 31, 2010, the Company repurchased 7,232,715 shares of its common stock at a cost of $121.2 million and $29.0 million of its outstanding Notes at a cost of $27.3 million. We have $26.5 million available to repurchase additional shares of our common stock or redeem our Convertible Senior Notes under this program as of December 31, 2010. In January 2011, our Board of Directors authorized the repurchase of up to an additional $50 million of our outstanding common stock and Notes under the repurchase program.

Purchases can be made from time to time in the open market and will be funded from our available cash. The primary purpose of these programs is to enhance shareholder value by partially offsetting the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of purchases are based on several factors, including the price of our common stock, our liquidity and working capital needs, general business and market conditions, and other investment opportunities. The repurchased shares are retired and reclassified as authorized and unissued shares of common stock. See Part II, Item 5 of this Report for more information regarding the stock repurchase program. We may continue to repurchase shares and Convertible Senior Notes from time to time, as determined by management as authorized by the Board of Directors.

We believe that our cash balances and the cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, we may be required to raise or desire additional funds for selective purposes, such as acquisitions, and may raise such additional funds through public or private equity or debt financing or from other sources. After March 15, 2011, we 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. Further, on March 15, 2011 and then upon March 15, 2016, and March 15, 2021, or upon the occurrence of certain events including a change in control, holders of the Notes may require the Company to repurchase all or a portion of their Notes at a purchase price in cash equal to the full principal amount of the Notes plus any accrued and unpaid interest as of the relevant date. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes. While we expect holders to convert the Notes into shares prior to the redemption date, if our stock price declines and the interest rates rise significantly, we may be required to settle the Notes in cash. 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 for reasons including the tightening of the capital markets. Even if we are able to do so, it may not be on terms that are favorable or reasonable to us.

Credit Agreement

In September 2010, we entered into a Credit Agreement (the Credit Agreement) that matures in September 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to $220.0 million, with an option for us to request to increase the revolving loan commitments by an aggregate amount of up to $30.0 million with new or additional commitments, for a total credit facility of up to $250.0 million. No amounts were outstanding under the Credit Agreement as of December 31, 2010 and a total of $220.0 million remained available for borrowing. The Credit Agreement contains customary representations and warranties, covenants and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. We were in compliance with all covenants under the Credit Agreement as of December 31, 2010. For further information, see Note 6. Borrowings of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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Contractual Obligations and Operating Leases

The following table summarizes our significant contractual obligations, including future minimum lease payments at December 31, 2010, under non-cancelable operating leases with original terms in excess of one year, and the effect of such obligations on our liquidity and cash flows in the future periods (in thousands):

	Payment Due by Period				
	Total	2011	2012 and 2013	2014 and 2015	2016 and Beyond
Operating lease obligations:					
Operating lease payments	$87,395	$28,031	$49,518	$8,044	$1,802
Future sublease income	(5,850)	(3,423)	(2,427)	—	—
Net operating lease obligations	81,545	24,608	47,091	8,044	1,802
Debt obligations:					
Principal payments*	200,693	—	—	—	200,693
Interest payments	93,322	6,021	12,042	12,042	63,217
Other obligations**	1,736	881	855	—	—
Total	$377,296	$31,510	$59,988	$20,086	$265,712

* 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. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes.

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

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

The above commitment table does not include approximately $12.7 million of long-term income tax liabilities recorded in accordance with ASC 740, Income Taxes. We are unable to make a reasonably reliable estimate of the timing of these potential future payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above. For further information, see Note 13. Income Taxes of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Contractual Obligations

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

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

Operating Leases

We lease certain office facilities and equipment under non-cancelable operating leases. During 2004, we recorded facilities restructuring charges related to the consolidation of excess leased facilities in Redwood City, California. Operating lease payments in the table above include approximately $44.9 million, net of actual sublease income, for operating lease commitments for those facilities that are included in accrued facilities restructuring charges. See Note 11. Facilities Restructuring Charges and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Of these future minimum lease payments, we have $38.9 million recorded in accrued facilities restructuring charges at December 31, 2010. This accrual, in addition to minimum lease payments of $44.9 million, includes estimated operating expenses of $11.9 million, is net of estimated sublease income of $15.0 million, and is net of the present value impact of $2.9 million recorded in accordance with ASC 420-10, Accounting for Costs Associated with Exit or Disposal Activities. We estimated sublease income and the related timing thereof based on existing sublease agreements and current market conditions, among other factors. Our estimates of sublease income may vary significantly from actual amounts realized depending, in part, on factors that may be beyond our control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases.

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

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

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

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

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

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

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

Cash Flow Hedge Activities

We have attempted to minimize the impact of certain foreign currency fluctuations through initiation of certain cash flow hedge programs starting in the fourth quarter of 2008. The purpose of these programs is to reduce volatility in cash flows and expenses caused by movement in certain foreign currency exchange rates, in particular the euro, Indian rupee, and Israeli shekel. Under these programs, the effective portion of the gain or loss on the derivative instrument is reported as a component of other

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comprehensive income (loss) and is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The foreign exchange contracts initiated in the fourth quarter of 2009 expired in January 2011, and the Company entered into additional foreign exchange contracts in December 2010 under the Company’s hedging programs with monthly expiration dates through January 2012.

The table below presents the notional amounts of the foreign exchange forward contracts that Informatica committed to purchase in the fourth quarter of 2010 for euros, Indian rupees, and Israeli shekels, which were outstanding as of December 31, 2010 (in thousands):

Functional currency	Foreign Amount Notional Amount Sold	Notional Amount Purchased	USD Equivalent Notional Amount Sold	Notional Amount Purchased	Weighted Average Rate
Euro	20,160	—	$26,300	$—	0.7665
Indian rupee	—	932,000	—	20,032	46.5256
Israeli shekel	—	16,944	—	4,635	3.6557
	20,160	948,944	$26,300	$24,667	

See Note 2. Summary of Significant Accounting Policies, Note 9. Accumulated Other Comprehensive Income, Note 10. Derivative Financial Instruments, and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements for a further discussion.

We record the effective portion of changes in fair value of these cash flow hedges in accumulated other comprehensive income (loss). When the forecasted transaction occurs, we reclassify the effective portion related gain or loss on the cash flow hedge to operating expenditures. If the hedge program becomes ineffective or if the underlying forecasted transaction does not occur for any reason, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income (loss) to other income (expense) in the consolidated statements of operations.

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 and agency notes and bonds, corporate bonds, commercial paper and municipal securities. All investments are carried at market value, which approximates cost. See Note 3. Cash, Cash Equivalents, and Short-Term Investments of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

The following table presents the fair value of cash equivalents and short-term investments that are subject to interest rate risk and the average interest rate as of December 31, 2010 and 2009 (dollars in thousands):

	December 31, 2010	2009
Cash equivalents and short-term investments	$273,777	$317,178
Average rate of return	1.0 %	1.4 %

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 December 31, 2010, we had net unrealized gains of $0.3 million associated with these securities. If market interest rates were to change immediately and uniformly by 100 basis points from levels as of December 31, 2010, the fair market value of the portfolio would change by approximately $2.5 million. Additionally, 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. At this time, we do not expect a significant change in our average rate of return in 2011.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements, and the related notes thereto, of Informatica Corporation and the Reports of Independent Registered Public Accounting Firm are filed as a part of this Form 10-K.

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Informatica is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Informatica's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements due to human error, or the improper circumvention or overriding of internal controls. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may change over time.

Management assessed the effectiveness of Informatica's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its assessment of internal control over financial reporting, management has concluded that, as of December 31, 2010, Informatica's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Informatica's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of Informatica's internal control over financial reporting. Its report appears immediately after this report.

/s/ SOHAIB ABBASI
Sohaib Abbasi
Chief Executive Officer and President
February 25, 2011

/s/ EARL FRY
Earl Fry
Chief Financial Officer, Chief Administration Officer
and EVP, Global Customer Support
February 25, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Informatica Corporation

We have audited Informatica Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Informatica Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Informatica Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Informatica Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 of Informatica Corporation and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 25, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Informatica Corporation

We have audited the accompanying consolidated balance sheets of Informatica Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Informatica Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for business combinations in 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Informatica Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 25, 2011

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INFORMATICA CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31, 2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$208,899	$159,197
Short-term investments	262,047	305,283
Accounts receivable, net of allowances of $4,289 in 2010 and $3,454 in 2009	147,534	110,653
Deferred tax assets	22,664	23,673
Prepaid expenses and other current assets	32,321	15,251
Total current assets	673,465	614,057
Property and equipment, net	9,866	7,928
Goodwill	400,726	287,068
Other intangible assets, net	77,927	63,586
Long-term deferred tax assets	18,314	8,259
Other assets	9,343	8,724
Total assets	$1,189,641	$989,622
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$5,948	$4,274
Accrued liabilities	50,199	37,367
Accrued compensation and related expenses	56,315	41,523
Income taxes payable	—	12,949
Accrued facilities restructuring charges	18,498	19,880
Deferred revenues	172,559	139,629
Convertible senior notes	200,693	—
Total current liabilities	504,212	255,622
Convertible senior notes	—	201,000
Accrued facilities restructuring charges, less current portion	20,410	32,845
Long-term deferred revenues	6,987	4,531
Long-term deferred tax liabilities	311	516
Long-term income taxes payable	12,739	11,995
Total liabilities	544,659	506,509
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized; 94,461 shares and 90,092 shares issued and outstanding at December 31, 2010 and 2009, respectively	94	90
Additional paid-in capital	514,365	434,262
Accumulated other comprehensive loss	(5,530)	(968)
Retained earnings	136,053	49,729
Total stockholders' equity	644,982	483,113
Total liabilities and stockholders' equity	$1,189,641	$989,622

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
License	$295,110	$214,322	$195,769
Service	354,966	286,371	259,930
Total revenues	650,076	500,693	455,699
Cost of revenues:			
License	4,485	3,135	3,291
Service	100,602	76,549	80,287
Amortization of acquired technology	13,342	7,950	4,125
Total cost of revenues	118,429	87,634	87,703
Gross profit	531,647	413,059	367,996
Operating expenses:			
Research and development	106,043	78,352	72,522
Sales and marketing	245,498	192,747	177,339
General and administrative	46,273	41,449	37,411
Amortization of intangible assets	9,539	10,051	4,575
Facilities restructuring charges	1,133	1,661	3,018
Acquisitions and other	1,326	(570)	390
Patent related litigation proceeds net of patent contingency accruals	—	—	(11,495)
Total operating expenses	409,812	323,690	283,760
Income from operations	121,835	89,369	84,236
Interest income	3,904	5,867	14,092
Interest expense	(6,568)	(6,602)	(7,221)
Other income, net	1,978	1,184	866
Income before income taxes	121,149	89,818	91,973
Income tax provision	34,825	25,607	35,993
Net income	$86,324	$64,211	$55,980
Basic net income per common share	$0.93	$0.73	$0.64
Diluted net income per common share	$0.83	$0.66	$0.58
Shares used in computing basic net income per common share	92,361	87,991	88,109
Shares used in computing diluted net income per common share	109,083	103,312	103,278

See accompanying notes to consolidated financial statements.

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INFORMATICA CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balances, December 31, 2007	87,475	$87	$377,277	$5,640	$(70,462)	$312,542
Components of comprehensive income:						
Net income	—	—	—	—	55,980	55,980
Foreign currency translation adjustment	—	—	—	(10,090)	—	(10,090)
Unrealized gain on investments	—	—	—	658	—	658
Cash flow hedging gains	—	—	—	51	—	51
Comprehensive income						46,599
Common stock options exercised	2,313	3	19,112	—	—	19,115
Common stock issued under employee stock purchase plan	669	1	8,466	—	—	8,467
Stock-based compensation	—	—	16,321	—	—	16,321
Tax benefit of stock-based compensation	—	—	9,907	—	—	9,907
Repurchase and retirement of common stock	(3,797)	(4)	(56,992)	—	—	(56,996)
Balances, December 31, 2008	86,660	87	374,091	(3,741)	(14,482)	355,955
Components of comprehensive income:						
Net income	—	—	—	—	64,211	64,211
Foreign currency translation adjustment	—	—	—	3,562	—	3,562
Unrealized loss on investments	—	—	—	(647)	—	(647)
Cash flow hedging loss	—	—	—	(142)	—	(142)
Comprehensive income						66,984
Common stock options exercised	3,473	3	33,150	—	—	33,153
Common stock issued under employee stock purchase plan	791	1	8,543	—	—	8,544
Stock-based compensation	—	—	17,926	—	—	17,926
Tax benefit of stock-based compensation	—	—	13,386	—	—	13,386
Repurchase and retirement of common stock	(832)	(1)	(12,834)	—	—	(12,835)
Balances, December 31, 2009	90,092	90	434,262	(968)	49,729	483,113
Components of comprehensive income:						
Net income	—	—	—	—	86,324	86,324
Foreign currency translation adjustment	—	—	—	(4,294)	—	(4,294)
Unrealized loss on investments	—	—	—	(75)	—	(75)
Cash flow hedging loss	—	—	—	(193)	—	(193)

Comprehensive income						81,762
Common stock options exercised	4,250	4	46,324	—	—	46,328
Common stock issued under employee stock purchase plan	625	1	11,230	—	—	11,231
Restricted stock units vested	290	—	—	—	—	—
Withholding taxes related to restricted stock units net share settlement	(76)	—	(1,990)	—	—	(1,990)
Stock-based compensation	—	—	23,438	—	—	23,438
Tax benefit of stock-based compensation	—	—	24,580	—	—	24,580
Repurchase and retirement of common stock	(735)	(1)	(23,782)	—	—	(23,783)
Conversion of convertible senior notes	15	—	303	—	—	303
Balances, December 31, 2010	94,461	$94	$514,365	$(5,530)	$136,053	$644,982

See accompanying notes to consolidated financial statements.

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INFORMATICA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2010	2009	2008
Operating activities:			
Net income	$86,324	$64,211	$55,980
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,095	5,513	5,618
Allowance for (recovery of) doubtful accounts	(30)	320	1,268
Gain on sale of investment in equity interests	(1,824)	—	—
Gain on early extinguishment of debt	—	(337)	(1,015)
Stock compensation	23,438	17,926	16,321
Deferred income taxes	3,847	(8,189)	(10,874)
Tax benefits from stock compensation	24,580	13,386	9,907
Excess tax benefits from stock compensation	(22,881)	(8,670)	(5,094)
Amortization of intangible assets and acquired technology	22,881	18,001	8,700
Non-cash facilities restructuring charges	1,133	1,661	3,018
Other non-cash items	(2,146)	504	370
Changes in operating assets and liabilities:			
Accounts receivable	(27,585)	(19,631)	(5,959)
Prepaid expenses and other assets	555	(2,988)	3,298
Accounts payable and accrued liabilities	3,317	(11,742)	7,153
Accrued compensation and related expenses	12,814	7,264	(4,907)
Income taxes payable	(16,944)	3,617	13,210
Accrued facilities restructuring charges	(14,789)	(13,239)	(12,628)
Deferred revenues	33,043	9,262	15,529
Net cash provided by operating activities	131,828	76,869	99,895
Investing activities:			
Purchases of property and equipment	(7,226)	(3,303)	(4,728)
Purchases of investments	(347,240)	(462,440)	(468,880)
Purchases of patent	—	(2,420)	(1,300)
Purchase of investment in equity interest	(1,500)	—	(3,000)
Sale of investment in equity interest	4,824	—	—
Maturities of investments	281,422	382,791	394,469
Sales of investments	108,927	54,364	75,536
Business acquisitions, net of cash acquired	(171,272)	(86,024)	(86,980)
Transfer from restricted cash	—	—	12,016
Net cash used in investing activities	(132,065)	(117,032)	(82,867)
Financing activities:			
Net proceeds from issuance of common stock	57,559	41,697	27,582
Repurchases and retirement of common stock	(23,783)	(12,835)	(56,996)
Repurchases of convertible senior notes	—	(19,200)	(7,774)
Withholding taxes related to restricted stock units net share settlement	(1,990)	—	—
Payment of issuance costs on credit facility	(1,881)	—	—
Excess tax benefits from stock compensation	22,881	8,670	5,094
Net cash provided by (used in) financing activities	52,786	18,332	(32,094)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,847)	1,154	(8,721)

Net increase (decrease) in cash and cash equivalents	49,702	(20,677)	(23,787)
Cash and cash equivalents at beginning of the year	159,197	179,874	203,661
Cash and cash equivalents at end of the year	$208,899	$159,197	$179,874
Supplemental disclosures:			
Interest paid	$6,030	$6,290	$6,952
Income taxes paid, net of refunds	$23,342	$17,162	$25,537
Supplemental disclosures of non-cash investing and financing activities:			
Unrealized gain (loss) on investments	$(75)	$(647)	$658
Conversion of convertible senior notes	$303	$—	$—

See accompanying notes to consolidated financial statements.

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INFORMATICA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Informatica Corporation ("Informatica" or the "Company") was incorporated in California in February 1993 and reincorporated in Delaware in April 1999. The Company is the leading independent provider of enterprise data integration and data quality software and services. The Company's mission is to enable organizations to gain a competitive advantage from all their information assets to drive their top business imperatives and information technology initiatives. The Company's software solutions include a comprehensive set of technologies to enable a wide variety of complex enterprise-wide data integration initiatives, including: enterprise data integration, data quality, master data management, B2B data exchange, application information lifecycle management, complex event processing, ultra messaging, and cloud data integration.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The Company’s consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States, which require the Company to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based upon information available to it at the time that these estimates, judgments, and assumptions are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact the Company's consolidated financial statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result.

Cash and Cash Equivalents

The Company considers highly liquid investment securities with maturities of 90 days or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of commercial paper, money market funds, and federal agency and U.S. government notes and bonds with insignificant interest rate risk. Cash and cash equivalents are stated at cost, which approximates fair value.

Allowance for Doubtful Accounts

The Company makes estimates as to the overall collectability of accounts receivable and provides an allowance for accounts receivable considered uncollectible. The Company specifically analyzes its accounts receivable based on historical bad debt experience, customer concentrations, customer credit-worthiness, the age of the receivable, current economic trends, and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. The Company records the adjustment in general and administrative expense. At December 31, 2010 and 2009, the Company’s allowance for doubtful accounts was $4.3 million and $3.5 million, respectively.

Investments

Investments are comprised of marketable debt securities, which consist primarily of commercial paper, corporate notes and bonds, U.S. government and agency notes and bonds, and municipal securities with original maturities beyond 90 days. All marketable debt securities are held in the Company’s name and managed by external investment managers. The Company’s marketable debt securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of accumulated other comprehensive income (loss) in stockholders’ equity. The Company classifies all available-for-sale marketable debt securities, including those with original maturity dates greater than one year, as short-term investments. Realized gains or losses and permanent declines in value, if any, on available-for-sale securities are reported in other income or expense as incurred. The Company recognizes realized gains and losses upon sales of investment and reclassifies unrealized gains and losses out of accumulated other comprehensive income (loss) into earnings using the specific identification method.

INFORMATICA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company also has investments in privately-held companies that are accounted for under the cost method and included in other non-current assets. The carrying value of these investments was $1.5 million and $3.0 million at December 31, 2010 and 2009, respectively. The Company made a $1.5 million investment in the preferred stock of a privately-held company in February 2010. During the first quarter of 2010, the Company received $4.8 million for its $3.0 million investment in another privately-held company due to the acquisition of such company by a third party. As a result of this transaction, the Company recorded a gain of $1.8 million in other income for the year ended December 31, 2010.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from one to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

Software Development Costs

The Company accounts for software development costs in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 985-20, Costs of Software to Be Sold, Leased, or Marketed. Software development costs are expensed as incurred until the establishment of technological feasibility, at which time those costs are capitalized until the product is available for general release to customers and amortized over the estimated life of the product. Technological feasibility is established upon completion of a working model. Through December 31, 2010, costs incurred subsequent to the establishment of technological feasibility have not been significant, and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

Pursuant to the ASC 350-40, Intangibles - Goodwill and Other, Internal - Use Software, the Company capitalizes certain costs relating to software acquired, developed, or modified solely to meet the Company’s internal requirements and for which there are no substantive plans to market the software. The Company did not have any capitalized software developments costs for the years ended December 31, 2010, 2009, and 2008.

Goodwill

The Company tests goodwill for impairment annually on October 31 of each year and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 350, Intangibles - Goodwill and Other. Consistent with the Company’s assessment that it has only one reporting segment, the Company has determined that it has only one reporting unit and tests goodwill for impairment at the entity level. The Company tests its goodwill using the two-step process required by ASC 350. In the first step, the Company compares the carrying amount of the reporting unit to the fair value based on quoted market prices of the Company’s common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, the Company compares the implied fair value of the goodwill, as defined by ASC 350, to its carrying amount to determine the impairment loss, if any.

The Company performed its annual goodwill impairment tests as of October 31, 2010 and 2009, and concluded that there was no impairment.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of an asset to the future undiscounted cash flows attributable to that asset. The Company measures any amount of impairment based on the difference between the carrying value and the fair value of the impaired asset. The Company did not recognize any impairment charges of long-lived assets in 2010, 2009, or 2008.

Business Combinations

In 2009, the Company adopted ASC 805, Business Combinations, which revised the accounting guidance for acquisitions in comparison to prior years. The guidance requires the Company to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition fair values of the assets acquired and the liabilities assumed. The purchase price allocation process requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities, and pre-acquisition contingencies.

In connection with the purchase price allocations for acquisitions, the Company estimates the fair value of the support obligations assumed. The estimated fair value of the support obligations is determined utilizing a cost build-up approach by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical costs related to fulfilling the obligations. The sum of these costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligations.

As a result of the adoption of the revised accounting guidance in ASC 805, the Company's accounting for acquisitions in 2009 and after in comparison to the accounting for acquisitions prior to 2009 differ. Under the new accounting pronouncement, the Company expenses transaction costs and restructuring expenses related to the acquisition as incurred. Prior to 2009, direct transaction costs were included as part of the purchase price, and restructuring expenses were included as part of the assumed obligations in deriving the purchase price allocation. Further, pursuant to ASC 805, the Company identifies pre-acquisition contingencies and determines their respective fair values as of the end of the purchase price allocation period. The Company records any adjustments to pre-acquisition contingencies in the Company's operating results in the period in which the adjustment is determined. Furthermore, any adjustments to estimates of acquisition related tax contingencies are recorded to goodwill during the measurement period and in the Company's operating results after the conclusion of the measurement period. Prior to 2009, any such adjustments were included as part of the purchase price allocation. Moreover, the Company identifies in-process research and development costs, determines their respective fair values, and includes them as part of the purchase price allocation. In-process research and development costs, under the new guidance, meet the definition of an asset, and the Company classifies them as an indefinite lived intangible asset until the asset is put to use or deemed to be impaired. Prior to 2009, in-process research and development was expensed at the acquisition date.

Fair Value Measurement of Financial Assets and Liabilities

ASC 820, Fair Value Measurements and Disclosures, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable through correlation with market data; and
- Level 3. Unobservable inputs that are supported by little or no market data, which require the reporting entity to develop its own assumptions.

Further, ASC 820 allows the Company to measure the fair value of its financial assets and liabilities based on one or more of the three following valuation techniques:

- Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost); and
- Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

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INFORMATICA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the fair value measurement classification of Informatica as of December 31, 2010 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$2,231	$2,231	$—	$—
Marketable debt securities (2)	271,546		271,546	—
Total money market funds and marketable debt securities	273,777	2,231	271,546	—
Foreign currency derivatives (3)	152	—	152	—
Total	$273,929	$2,231	$271,698	$—
Liabilities:				
Foreign currency derivatives (4)	$569	$—	$569	$—
Convertible senior notes	452,663	452,663	—	—
Total	$453,232	$452,663	$569	$—

The following table summarizes the fair value measurement classification of Informatica as of December 31, 2009 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$10,895	$10,895	$—	$—
Marketable debt securities (2)	306,283	—	306,283	—
Total money market funds and marketable debt securities	317,178	10,895	306,283	—
Foreign currency derivatives (3)	1	—	1	—
Total	$317,179	$10,895	$306,284	$—
Liabilities:				
Foreign currency derivatives (4)	$206	$—	$206	$—
Convertible senior notes	257,055	257,055	—	—
Total	$257,261	$257,055	$206	$—

(1) Included in cash and cash equivalents on the consolidated balance sheets.
(2) Included in either cash and cash equivalents or short-term investments on the consolidated balance sheets.
(3) Included in prepaid expenses and other current assets on the consolidated balance sheets.
(4) Included in other liabilities on the consolidated balance sheets.

Marketable Debt Securities and Convertible Senior Notes

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

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

The Company uses the following methodology to determine the fair value of its U.S. government and agency notes and bonds, municipal securities, and corporate notes and bonds aggregating $246.1 million and $280.3 million at December 31, 2010 and 2009, respectively. These securities generally have market prices from multiple sources; therefore, the Company uses a “consensus price” or a weighted average price for each security. Market prices for these securities are received from a variety of industry standard data providers (e.g., Bloomberg), security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily market value.

The Company uses the following methodology to determine the fair value of its commercial paper and certificates of deposit aggregating $25.4 million and $26.0 million at December 31, 2010 and 2009, respectively. The Company uses mathematical calculations to arrive at fair value for these securities, which generally have short maturities and infrequent secondary market trades. For example, in the absence of any observable transactions, the Company may accrete from purchase price at purchase date to face value at maturity. In the event that a transaction is observed on the same security in the marketplace, the price on that subsequent transaction clearly reflects the market price on that day, and Informatica will adjust the price in the system to the observed transaction price and follow a revised accretion schedule to determine the daily price.

The Company has classified its convertible debt as Level 1 since it has quoted prices available in active markets. The estimated fair value of the Company’s Convertible Senior Notes as of December 31, 2010 and 2009 was based on the Over-the-Counter market closing prices as of December 23, 2010 and December 18, 2009 (the last trading days of the respective periods), which were $45.11 per share or $452.7 million and $25.58 per share or $257.1 million, respectively.

Foreign Currency Derivatives and Hedging Instruments

The Company uses the income approach to value the derivatives using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the assets and liabilities, which include interest rates and credit risk. The Company uses mid-market pricing as a practical expedient for fair value measurements. Key inputs for currency derivatives are the spot rates, forward rates, interest rates, and credit derivative markets. The spot rate for each currency is the same spot rate used for all balance sheet translations at the measurement date and is sourced from the Federal Reserve Bulletin. The following values are interpolated from commonly quoted intervals available from Bloomberg: forward points and the London Interbank Offered Rate ("LIBOR") used to discount and determine the fair value of assets and liabilities. One-year credit default swap spreads identified per counterparty at month end in Bloomberg are used to discount derivative assets for counterparty non-performance risk, all of which have terms of 13 months or less. The Company discounts derivative liabilities to reflect the Company’s own potential non-performance risk to lenders and has used the spread over LIBOR on its most recent corporate borrowing rate.

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

See Note 9. Accumulated Other Comprehensive Income, Note 10. Derivative Financial Instruments, and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements for a further discussion.

Fair Value of Financial Instruments, Concentrations of Credit Risk, and Credit Evaluations

The fair value of the Company’s cash, cash equivalents, short-term investments, accounts receivable, and accounts payable approximates their respective carrying amounts due to their short-term maturity.

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash equivalents, investments in marketable debt securities, and trade accounts receivable. The Company maintains its cash and cash equivalents and investments with financial institutions with high credit standing.

The Company performs ongoing credit evaluations of its customers, which are primarily located in the United States, Canada, and Europe, and generally does not require collateral. The Company makes judgments as to its ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, the Company analyzes its historical collection experience and current economic trends. If the historical data it uses to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected. The Company evaluates its counterparties associated with the Company's foreign exchange forward contracts at least quarterly as part of its cash flow hedge program. Since all these counterparties are large credit-worthy commercial banking institutions, the Company does not consider counterparty non-performance to be a material risk.

Revenue Recognition

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

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

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

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

Fee is fixed or determinable. The Company considers arrangements with extended payment terms not to be fixed or determinable. If the license fee in an arrangement is not fixed or determinable, revenue is recognized as payments become due. Revenue arrangements with resellers and distributors are recognized on a sell-through basis. The Company's standard agreements do not contain product return rights.

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

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

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

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

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

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Other revenues, primarily consisting of \subscriptions for address validation and cloud services (which are not material for any period presented), are generally recognized as the services are delivered.
Deferred revenues include deferred license, maintenance, consulting, education, and other services revenues. For customers not deemed credit-worthy, the Company’s practice is to net unpaid deferred revenue for that customer against the related receivable balance.
Facilities Restructuring Charges
The Company adopted ASC 420, Exit or Disposal Cost Obligations (formerly FAS 146), effective January 1, 2003; therefore, the restructuring activities initiated on or after January 1, 2003 were accounted for in accordance with ASC 420. The Company applied ASC 420for its 2004 Restructuring Plan while its 2001 Restructuring Plan was accounted for in accordance with Emerging Issues Task Force (“EITF”) Issue No. 88-10, Costs Associated with Lease Modification or Termination and other applicable pre-existing guidance. See Note 11. Facilities Restructuring Charges of Notes to Consolidated Financial Statements.
ASC 420 requires that a liability associated with an exit or disposal activity be recognized when the liability is incurred, as opposed to when management commits to an exit plan. ASC 420 also requires that: (1) liabilities associated with exit and disposal activities be measured at fair value; (2) one-time termination benefits be expensed at the date the entity notifies the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period; (3) liabilities related to an operating lease/contract be recorded at fair value and measured when the contract does not have any future economic benefit to the entity (that is, the entity ceases to utilize the rights conveyed by the contract); and (4) all other costs related to an exit or disposal activity be expensed as incurred. The Company estimated the fair value of its lease obligations included in its 2003 and later restructuring activities based on the present value of the remaining lease obligation, operating costs, and other associated costs, less estimated sublease income.
Stock-Based Compensation
The Company accounts for stock-based compensation in accordance with the provisions of ASC 718, Stock Compensation. Stock-based awards granted include stock options, restricted stock units ("RSUs"), and stock purchased under the Company's Employee Stock Purchase Plan. Stock-based compensation expense is measured at the grant date based on the fair value of the awards and is recognized as an expense ratably on a straight line basis over the requisite service period. See Note 8. Stock-Based Compensation for a description of the Company's stock-based compensation plans and more information on the assumptions used to calculate the fair value of stock-based awards.
Shipping and Handling Costs
Shipping and handling costs in connection with our packaged software products are not material and are expensed as incurred in cost of license revenues in the Company’s results of operations.
Advertising Expense
Advertising costs are expensed as incurred. Advertising expenses were negligible for the years ended December 31, 2010, 2009, and 2008.
Income Taxes
The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740, 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 the Company's consolidated financial statements or tax returns. Effective January 1, 2007, the Company adopted the guidance in ASC 740 to account for any income tax contingencies. The measurement of current and deferred tax assets and liabilities is based on provisions of currently enacted tax laws. The effects of future changes in tax laws or rates are not contemplated with the exception of revaluing deferred taxes for California relating to 2011 and thereafter.

As part of the process of preparing consolidated financial statements, we estimate our income taxes and tax contingencies in each of the tax jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in net deferred tax assets and liabilities. We must then assess the likelihood that the deferred tax assets will be realizable, and to the extent we believe that a deferred tax asset is not likely to be realized, we must establish a valuation allowance. In assessing the need for any additional valuation allowance, we considered all the evidence available to us, both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies.

Reporting Segments

ASC 280, Segment Reporting, 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's chief operating decision maker is the Chief Executive Officer, who reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. On this basis, the Company is organized and operates in a single segment: the design, development, marketing, and sales of software solutions.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"), which requires a vendor to allocate revenue to each unit of accounting in many arrangements involving multiple deliverables based on the relative selling price of each deliverable. It also changes the level of evidence of standalone selling price required to separate deliverables by allowing a vendor to make its best estimate of the standalone selling price of deliverables when more objective evidence of selling price is not available. The best estimate of the selling price can be used when VSOE or third-party evidence (TPE) of fair value is not available. Cloud services is a model of software deployment whereby a vendor licenses an application to customers for use as a service on demand and is within the scope of this ASU. The Company's revenue from cloud services is not material for any period presented. This ASU is effective for the arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company will adopt this ASU as of January 1, 2011, and the Company expects that its adoption will not materially impact the consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification ("ASU 2010-02"), which addresses implementation issues related to the changes in ownership provisions ASC 810-10. ASU 2010-02 is effective beginning in the first interim period or annual reporting period ending on or after December 15, 2009. The Company adopted ASU 2010-02 in the first quarter of 2010, and its adoption did not have an impact on the consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosure (Topic 820): Improving Disclosures about Fair Value Measurements ("ASU 2010-06"), which requires new disclosures regarding transfers between Levels 1, 2, and 3 and the activity in Level 3 for fair value measurements. ASU 2010-06 also provides clarification to existing disclosures regarding fair value measurement disclosures for each class of assets and liabilities and valuation techniques. ASU 2010-06 and guidance for new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures related to activities in Level 3. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted ASU 2010-06 in its entirety as required in the first quarter of 2010.

In December 2010, the FASB issued Accountings Standards Update No. 2010-28, Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ("ASU 2010-28"), which modifies Step 1 of the goodwill impairment test. For reporting units with zero or negative carrying amounts, Step 2 of the goodwill impairment must be performed if it is more likely than not that a goodwill impairment exists. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company will adopt ASU 2010-28 as of January 1, 2011. As the Company does not have a zero or negative carrying value, the Company expects that its adoption will not have an impact to the consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations ("ASU 2010-29"), which clarifies the pro forma revenue and earnings disclosure requirements for business combinations. ASU 2010-29 specifies if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. In addition, this ASU expands the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt ASU 2010-29 as of January 1, 2011 and does not expect its adoption to have a material impact to the consolidated financial statements.

3. Cash, Cash Equivalents, and Short-Term Investments

Investments are comprised of marketable debt securities, which consist primarily of commercial paper, U.S. government and agency notes and bonds, corporate notes and bonds, and municipal securities with original maturities beyond 90 days.

Informatica applies the provisions of Recognition and Presentation of Other-Than-Temporary Impairments (ASC 320-10-35) to its debt securities classified as available-for-sale and evaluates them for other-than-temporary impairment based on the following three criteria: (i) Informatica has decided to sell the debt security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, and (iii) the Company does not expect to recover the security's entire amortized cost basis from the present value of cash flows expected to be collected from the debt security ("credit loss"). In determining the amount of credit loss, the Company compares its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. Any shortfall that results from this comparison (credit loss) will be reflected as other income or expense in the consolidated statement of income. Further, Informatica also considers other factors such as industry analysts' reports and credit ratings in addition to the above three criteria to determine the other-than-temporary impairment status of its investments.

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

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

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

Realized gains of $267,000, $418,000 and $92,000 were recognized for the years ended December 31, 2010, 2009, and 2008, respectively. The cost of securities sold was determined based on the specific identification method. The Company sold approximately $35 million of its investment in marketable debt securities in December 2009 in anticipation of its cash requirement for the acquisition of Siperian, Inc. in January 2010.

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The following is a summary of the Company's investments as of December 31, 2010 and 2009 (in thousands):

	December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$197,169	$—	$—	$197,169
Cash equivalents:				
Money market funds	2,231	—	—	2,231
Federal agency notes and bonds	9,499	—	—	9,499
Total cash equivalents	11,730	—	—	11,730
Total cash and cash equivalents	208,899	—	—	208,899
Short-term investments:				
Certificates of deposit	14,437	—	—	14,437
Commercial paper	10,977	—	—	10,977
Corporate notes and bonds	97,899	444	(86)	98,257
Federal agency notes and bonds	105,120	40	(140)	105,020
U.S. government notes and bonds	10,156	19	(10)	10,165
Municipal notes and bonds	23,205	5	(19)	23,191
Total short-term investments	261,794	508	(255)	262,047
Total cash, cash equivalents, and short-term investments*	$470,693	$508	$(255)	$470,946

	December 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$147,302	$—	$—	$147,302
Cash equivalents:				
Money market funds	10,895	—	—	10,895
Municipal notes and bonds	1,000	—	—	1,000
Total cash equivalents	11,895	—	—	11,895
Total cash and cash equivalents	159,197	—	—	159,197
Short-term investments:				
Certificates of deposit	5,040	—	—	5,040
Commercial paper	20,953	—	—	20,953
Corporate notes and bonds	63,168	364	(42)	63,490
Federal agency notes and bonds	143,840	200	(252)	143,788
U.S. government notes and bonds	24,515	44	(10)	24,549
Municipal notes and bonds	47,387	88	(12)	47,463
Total short-term investments	304,903	696	(316)	305,283
Total cash, cash equivalents, and short-term investments*	$464,100	$696	$(316)	$464,480

* Total estimated fair value above included $273.8 million and $317.2 million comprised of cash equivalents and short-term investments at December 31, 2010 and 2009, respectively.

In accordance with ASC 320, Investments – Debt and Equity Securities, Informatica considers the investment category and the length of time that an individual security has been in continuous unrealized loss position to make a decision that the investment

is other-than-temporary impaired.
The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010 (in thousands):

	Less Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$25,005	$(86)
Federal agency notes and bonds	62,193	(140)
U.S. government notes and bonds	1,974	(10)
Municipal notes and bonds	6,825	(19)
Total	$95,997	$(255)

Informatica did not have any investments in 2009 that were in a continuous unrealized loss position for periods greater than 12 months.
Informatica uses a market approach for determining the fair value of all its marketable debt securities and money market funds, which it has classified as Level 2 and Level 1, respectively. The changes in value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature.
The following table summarizes the cost and estimated fair value of the Company's cash equivalents and short-term investments by contractual maturity at December 31, 2010 (in thousands):

	Cost	Fair Value
Due within one year	$165,625	$165,724
Due in one year to two years	64,366	64,604
Due after two years	43,533	43,449
Total	$273,524	$273,777

4. Property and Equipment
The following table summarizes the cost of property and equipment and related accumulated depreciation at December 31, 2010 and 2009 (in thousands):

	Estimated	December 31,	
	Useful Lives	2010	2009
Computer and equipment	1 - 5 years	$45,892	$42,771
Furniture and fixtures	3 years	5,215	5,226
Leasehold improvements	1 - 7 years	18,160	17,780
Total property and equipment		69,267	65,777
Less: Accumulated depreciation and amortization		(59,401)	(57,849)
Total property and equipment, net		$9,866	$7,928

Depreciation and amortization expense was $6.1 million, $5.5 million, and $5.6 million in 2010, 2009, and 2008, respectively.

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5. Goodwill and Intangible Assets
The carrying amounts of the intangible assets other than goodwill as of December 31, 2010 and 2009 are as follows (in thousands):

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
	December 31, 2009	Additions	December 31, 2010	December 31, 2009	Expense	December 31, 2010	December 31, 2009	December 31, 2010	Average Useful Life
Developed and core technology	$55,350	$35,147	$90,497	$(22,048)	$(13,206)	$(35,254)	$33,302	$55,243	6 years
Customer relationships	31,426	2,075	33,501	(14,029)	(6,782)	(20,811)	17,397	12,690	5 years
Vendor relationships	7,908	—	7,908	(992)	(1,667)	(2,659)	6,916	5,249	5 years
Other:									
Trade names	2,494	—	2,494	(835)	(451)	(1,286)	1,659	1,208	5 years
Covenants not to compete	2,000	—	2,000	(1,217)	(400)	(1,617)	783	383	5 years
Patents	3,720	—	3,720	(191)	(375)	(566)	3,529	3,154	10 years
Total intangible assets subject to amortization	$102,898	$37,222	$140,120	$(39,312)	$(22,881)	$(62,193)	$63,586	$77,927	

Total amortization expense related to intangible assets was $22.9 million, $18.0 million, and $8.7 million in 2010, 2009, and 2008, respectively. Of the $22.9 million amortization of intangible assets recorded in 2010, $9.5 million was recorded in operating expenses and $13.4 million was recorded in cost of license revenues. Of the $18.0 million amortization of intangible assets recorded in 2009, $10.1 million was recorded in operating expenses and $7.9 million was recorded in cost of license revenues. Of the $8.7 million amortization of intangible assets recorded in 2008, $4.6 million was recorded in operating expenses and $4.1 million was recorded in cost of license revenues.

As of December 31, 2010, the amortization expense related to identifiable intangible assets in future periods is expected to be as follows (in thousands):

	Acquired Technology	Other Intangible Assets	Total Intangible Assets
2011	$18,901	$7,684	$26,585
2012	17,139	5,713	22,852
2013	13,522	4,962	18,484
2014	4,251	2,300	6,551
2015	1,175	646	1,821
Thereafter	270	1,364	1,634
Total expected amortization expense	$55,258	$22,669	$77,927

The increase of $35.1 million in the gross carrying amount of developed and core technology was primarily due to the intangibles of $23.3 million and $9.8 million acquired from Siperian and 29West, respectively. The $23.3 million of developed and core technology acquired from Siperian includes $1.9 million reclassified from in-process research and development ("IPR&D") in September 2010. The Company recorded IPR&D of $1.9 million at the time of the Siperian acquisition in January 2010. The IPR&D capitalized costs were associated with software development efforts in process at the time of business combination that had not yet achieved technological feasibility and no future alternative uses had been identified. Technological feasibility was achieved in September 2010. The IPR&D was reclassified to developed technology and is being amortized over its useful life.

The increase of $2.1 million in the gross carrying amount of customer relationships was primarily due to the intangibles of $1.6 million and $0.6 million acquired from Siperian and 29West, respectively. See Note 20. Acquisitions of Notes to Consolidated Financial Statements for more information about the acquisitions of Siperian and 29West. In addition, $2.3 million of developed and core technology and $3.7 million of customer relationships at December 31, 2010 related to the Identity Systems and PowerData acquisitions were recorded in European local currencies; therefore, the gross carrying amount and accumulated amortization are subject to periodic translation adjustments.

The Company acquired certain customer relationships for $13.3 million from the acquisitions of Applimation, AddressDoctor, Agent Logic, Siperian, and 29West, which consist of software maintenance agreements. These renewable agreements are usually for a duration of one year and renewable afterwards. The costs of renewal of these contracts are reflected in the cost of service revenues.

The changes in the carrying amount of goodwill for 2010 and 2009 are as follows (in thousands):

	December 31,	
	2010	2009
Beginning balance	$287,068	$219,063
Goodwill from acquisitions	114,988	67,162
Subsequent goodwill adjustments	(1,330)	843
Ending balance	$400,726	$287,068

The increase in goodwill was primarily due to goodwill from the Siperian and 29West acquisitions of $78.4 million and $36.4 million, respectively. The goodwill acquired through the Siperian and 29West acquisitions is not deductible for tax purposes. See Note 20. Acquisitions for a further discussion.

Subsequent goodwill adjustments primarily include earn-out payments, foreign currency translation, and other adjustments for prior acquisitions. As part of the PowerData acquisition in 2008, the Company is obligated to pay certain variable and deferred earn-out payments in 2008, 2009, and 2010 based on the percentage of license revenues recognized subsequent to the acquisition. The acquisition occurred prior to the adoption of the new accounting guidance in ASC 805, so the Company considers these earn-outs as additional contingent consideration and records them in goodwill as they occur. The Company recorded an earn-out of $0.5 million and $0.8 million as additional goodwill in 2010 and 2009, respectively. In addition, the Company recorded adjustments of $(1.8) million and $47,000 for the years ended December 31, 2010 and 2009, respectively, primarily due to foreign currency translation and other adjustments for prior acquisitions.

6. Borrowings

Convertible Senior Notes

On March 8, 2006, the Company issued and sold Convertible Senior Notes (the "Notes") with an aggregate principal amount of $230 million due 2026. The Company pays interest at 3.0% per annum to holders of the Notes, payable semi-annually on March 15 and September 15 of each year, commencing September 15, 2006. Each $1,000 principal amount of Notes is initially convertible, at the option of the holders, into 50 shares of our common stock prior to the earlier of the maturity date (March 15, 2026) or the redemption or repurchase of the Notes. The initial conversion price represented a premium of 29.28% relative to the last reported sale price of common stock of the Company on the NASDAQ Global Select Market of $15.47 on March 7, 2006. The conversion rate is subject to certain adjustments. The conversion rate initially represents a conversion price of $20.00 per share. After March 15, 2011, the Company may from time to time redeem the Notes, in whole or in part, for cash, at a redemption price equal to the full principal amount of the Notes, plus any accrued and unpaid interest. Holders of the Notes may require the Company to repurchase all or a portion of their Notes at a purchase price in cash equal to the full outstanding 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. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes.

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 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 Derivatives and Hedging (ASC 815) and Debt With Conversion and Other Options (ASC 470-20), and concluded that none of these features should be separately accounted for as derivatives.

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In connection with the issuance of the Notes, the Company incurred $6.2 million of issuance costs, which primarily consisted of investment banker fees and legal and other professional fees. These costs are classified within Other Assets and are being amortized as a component of interest expense using the effective interest method over the life of the Notes from issuance through March 15, 2026. If the holders require repurchase of some or all of the Notes on the first repurchase date, which is March 15, 2011, the Company would accelerate amortization of the pro rata share of the unamortized balance of the issuance costs on such date. Also, if the Company repurchases some of the outstanding balance of the Notes, it would accelerate amortization of the pro rata share of the unamortized balance of the issuance costs at the time of such repurchases. If the holders require conversion of some or all of the Notes when the conversion requirements are met, the Company would accelerate amortization of the pro rata share of the unamortized balance of the issuance cost to additional paid-in capital on such date. Amortization expenses related to the issuance costs were $0.3 million and $0.7 million for the years ended December 31, 2010 and 2009, respectively. Interest expenses on the Notes were $6.0 million and $6.1 million for the years ended December 31, 2010 and 2009, respectively. Interest payments of $6.0 million and $6.3 million were made in 2010 and 2009, respectively.

In October 2008, Informatica's Board of Directors authorized the repurchase, from time to time, of a portion of its outstanding Notes due in 2026 in privately negotiated transactions with the holders of the Notes. In 2008, Informatica repurchased $9.0 million of its outstanding Convertible Senior Notes at a discounted cost of $7.8 million. As a result, $1.0 million, net of prorated deferred expenses written off for $0.2 million, is reflected in other income for year ended December 31, 2008. In 2009, Informatica repurchased an additional $20.0 million of its outstanding Notes, net of $0.3 million gain due to early retirement of the Notes and $0.5 million due to recapture of prorated deferred expenses, at a discounted cost of $19.2 million.

The following table sets forth the ending balance of the Convertible Senior Notes as of December 31, 2010 and 2009 resulting from the repurchase activities in the respective periods (in thousands):

Balance at January 1, 2009	$221,000
Face amount of Notes repurchased in 2009	(20,000)
Balance at December 31, 2009	201,000
Face amount of Notes converted in 2010	(307)
Balance at December 31, 2010	$200,693

Credit Agreement

On September 29, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") that matures on September 29, 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to $220.0 million, with an option for the Company to request to increase the revolving loan commitments by an aggregate amount of up to $30.0 million with new or additional commitments, for a total credit facility of up to $250.0 million. No amounts were outstanding under the Credit Agreement as of December 31, 2010, and a total of $220.0 million remained available for borrowing.

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

On September 29, 2010, Siperian LLC and Identity Systems, Inc., each wholly-owned subsidiaries of the Company, entered into a Guaranty pursuant to which such parties guarantied all of the obligations of the Company under the Credit Agreement. Future material domestic subsidiaries of the Company will be required to guaranty the Company's obligations under the Credit Agreement.

The Credit Agreement contains customary representations and warranties, covenants, and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The Company was in compliance with all covenants under the Credit Agreement as of December 31, 2010.

7. Stockholders’ Equity

Preferred Stock

The Company is authorized to issue 2.0 million shares of preferred stock with a par value of $0.001 per share of which 200,000 shares have been designated as Series A preferred stock. Informatica may issue preferred stock from time to time in one or more series. The Board of Directors is authorized to provide for the rights, preferences, privileges, and restrictions of the shares of such series. As of December 31, 2010 and 2009, no shares of preferred stock had been issued.

Common Stock

The Company has authorized 200 million shares of common stock with a par value of $0.001 per share. Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the rights of holders of all classes of stock having priority rights as to dividends. No cash dividends have been declared or paid through December 31, 2010.

Stockholders’ Rights Plan

In October 2001, the Board of Directors adopted the Stockholders’ Rights Plan and declared a dividend distribution of one common stock purchase right for each outstanding share of common stock held on November 12, 2001. Each right entitles the holder to purchase 1/1000th of a share of Series A Preferred Stock of the Company, par value $0.001, at an exercise price of $90 per share. The rights become exercisable in certain circumstances and are redeemable at the Company’s option, at an exercise price of $0.001 per right. The rights expire on the earlier of November 12, 2011 or on the date of their redemption or exchange. The Company may also exchange the rights for shares of common stock under certain circumstances. The Stockholders’ Rights Plan was adopted to protect stockholders from unfair or coercive takeover practices. The plan is reviewed every three years by a committee of independent directors.

Stock Repurchase Plan

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 and employee stock purchase plans. The number of shares acquired and the timing of the repurchases are based on several factors, including general market conditions and the trading price of the Company’s common stock. These purchases can be made from time to time in the open market and are funded from the Company’s available working capital.

In April 2007, Informatica’s Board of Directors authorized a stock repurchase program for up to an additional $50 million of its common stock. In April 2008, Informatica’s Board of Directors authorized an additional $75 million of its common stock for the stock repurchase program. In October 2008, Informatica’s Board of Directors approved expanding the repurchase program to include the repurchase, from time to time, of a portion of its outstanding Convertible Senior Notes (the "Notes") due in 2026 in privately negotiated transactions with holders of the Notes. In January 2010, our Board of Directors approved an additional $50 million for the stock repurchase program. This repurchase program does not have an expiration date.

From April 2007 to December 31, 2010, the Company repurchased 7,232,715 shares of its common stock at a cost of $121.2 million and $29.0 million of its outstanding Notes at a cost of $27.3 million. The Company has $26.5 million available to repurchase additional shares of our common stock or redeem a portion of our remaining Convertible Senior Notes under this program as of December 31, 2010. In January 2011, the Board authorized the repurchase of up to an additional $50 million of our outstanding common stock and Notes under the repurchase program.

These repurchased shares are retired and reclassified as authorized and unissued shares of common stock. The Company may continue to repurchase shares from time to time, as determined by management under programs approved by the Board of Directors.

8. Stock-Based Compensation

Summary of Plans

1999 Stock Incentive Plan

The Company's stockholders approved the 1999 Stock Incentive Plan (the "1999 Incentive Plan") in April 1999 under which 2,600,000 shares were reserved for issuance. In addition, any shares not issued under the 1996 Stock Plan were also available for grant. The number of shares reserved under the 1999 Incentive Plan automatically increased annually beginning on January 1, 2000 by the lesser of 16,000,000 shares or 5% of the total amount of fully diluted shares of common stock outstanding as of such date. Under the 1999 Incentive Plan, eligible employees, officers, and directors may purchase stock options, stock appreciation rights, restricted shares, and stock units. The exercise price for incentive stock options and non-qualified options may not be less than 100% and 85%, respectively, of the fair value of the Company's common stock at the option grant date. Options granted are exercisable over a maximum term of 7 to 10 years from the date of the grant and generally vest ratably over a period of 4 years, with options for new employees generally including a 1-year cliff period. This plan expired in March 2009. No further shares will be awarded from this plan. As of December 31, 2010, there were approximately 9,925,000 options and RSUs outstanding under the 1999 Incentive Plan.

1999 Non-Employee Director Stock Incentive Plan

The Company's stockholders adopted the 1999 Non-Employee Director Stock Option Incentive Plan (the "Directors Plan") in April 1999 under which 1,000,000 shares were reserved for issuance. In April 2003, the Board of Directors amended the Directors Plan such that each non-employee joining the Board of Directors would automatically receive options to purchase 60,000 shares of common stock. These options were exercisable over a maximum term of five years and would vest in four equal annual installments on each yearly anniversary from the date of the grant. The Directors Plan was amended in April 2003 to provide that one-third of the options vest one year from the grant date and the remainder shall vest ratably over a period of 24 months. In May 2004, the Directors Plan was amended such that each non-employee director who has been a member of the Board for at least six months prior to each annual stockholders meeting would automatically receive options to purchase 25,000 shares of common stock at each such meeting. Each such option has an exercise price equal to the fair value of the common stock on the automatic grant date and vests on the first anniversary of the grant date. This plan expired in March 2009. No further shares will be awarded from this plan. As of December 31, 2010, there were approximately 168,000 options outstanding under the Directors Plan.

2000 Employee Stock Incentive Plan

In January 2000, the Board of Directors approved the 2000 Employee Stock Incentive Plan (the "2000 Incentive Plan") under which 1,600,000 shares were reserved for issuance. Under the 2000 Incentive Plan, eligible employees and consultants may purchase stock options, stock appreciation rights, restricted shares, and stock units. The exercise price for non-qualified options may not be less than 85% of the fair value of common stock at the option grant date. Options granted are exercisable over a maximum term of 10 years from the date of the grant and generally vested over a period of 4 years from the date of the grant. This plan was terminated in April 2009. No further shares will be awarded from this plan. As of December 31, 2010, there were approximately 980 options outstanding under the 2000 Incentive Plan.

Assumed Option Plans

In connection with certain of the Company's acquisitions, the Company assumed options in the Influence 1996 Incentive Stock Option Plan, the Zimba 1999 Stock Option Plan, the Striva 2000 Stock Option Plan, the Similarity 2002 Stock Option Plan, and the Itemfield 2003 Stock Option Plan (the "Assumed Plans"). No further options will be granted under the Assumed Plans. As of December 31, 2010, the Company had 24,464 options outstanding under the

Assumed Plans.

As a result of the acquisition of Siperian in January 2010, the Company assumed 3,410,895 unvested in the money options under the Siperian 2003 Equity Incentive Plan (the "Siperian Plan") that were converted to 96,616 unvested options to purchase the Company's Common Stock. As of December 31, 2010, there were 79,393 options outstanding under the Siperian Plan.

1999 Employee Stock Purchase Plan

The stockholders adopted the 1999 Employee Stock Purchase Plan ("ESPP") in April 1999 under which 1,600,000 shares have been reserved for issuance. The number of shares reserved under the ESPP automatically increases beginning on January 1 of each year by the lesser of 6,400,000 shares or 2% of the total amount of fully diluted common stock shares outstanding on such date. Under the ESPP, eligible employees may purchase common stock in an amount not to exceed 10% of the employees' cash compensation. During the fourth quarter of 2005, the Board of Directors approved an amendment to the ESPP. Effective 2006, under the amended ESPP, the new participants are entitled to purchase shares at 85% of the lesser of the common stock fair market value either at the beginning or at the end of the six-month offering period, which was shortened from a 24-month offering period. The purchase price is then reset at the start of the next offering period. This plan expired in March 2009.

2009 Employee Stock Incentive Plan

The Company's stockholders approved the 2009 Equity Incentive Plan (the "2009 Incentive Plan") in April 2009 under which 9,000,000 shares have been reserved for issuance. Under the 2009 Incentive Plan, eligible employees, officers, and directors may be granted stock options (incentive and non-qualified), stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. The exercise price for incentive stock options and non-qualified options may not be less than 100% and 85%, respectively, of the fair value of the Company's common stock at the option grant date. During 2010, the Company granted 741,773 RSUs to certain employees, executives and directors of the Company and 2,025,000 options under its 2009 Incentive Plan. As of December 31, 2010, there were 4,600,855 shares available for grant and 3,568,976 options and RSUs outstanding under the 2009 Incentive Plan.

For purposes of the share reserve, the grant of a RSU is deemed an award for 1.52 shares of authorized common stock for each one share of authorized common stock subject to such award. If a share that was subject to an award and counted as 1.52 shares against the 2009 Incentive Plan reserve is returned to the 2009 Incentive Plan, the Company would credit the 2009 Incentive Plan reserve by 1.52 shares. These returned shares would be available for issuance under the 2009 Incentive Plan.

Employee Stock Purchase Plan

The Company's stockholders approved the Employee Stock Purchase Plan ("ESPP") in May 2008 under which 8,850,000 shares have been reserved for issuance. Under the ESPP, eligible employees may elect to contribute from 1% to 20% or a lesser percentage that the committee may establish from time to time of their eligible compensation. Currently, the committee established the maximum contribution percentage at 10% as utilized under the 1999 Employee Stock Purchase Plan. The purchase price is 85% of the lower of the closing price of the Common Stock on the NASDAQ Global Select Market at the beginning or end of the six-month Offering Period. As of December 31, 2010, the Company had 7,851,174 shares available for future issuance under the ESPP.

Other Information

The Company grants stock options which are exercisable over a maximum term of seven to ten years for employees and five years for directors from the date of the grant. These grants generally vest ratably over a period of four years for employees and one to three years for directors. Options granted to new employees generally include a 1-year cliff period.

The Company also grants Restricted Stock Units ("RSUs") to its employees and directors which vest over four years with annual vesting dates for employees and one to three years for directors. These RSUs are valued at the time of grant using the existing current market price.

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 consistently using a blend of average historical and market-based implied volatilities for calculating the expected volatilities for employee stock options, and it uses market-based implied volatilities for its ESPP.

The expected term of employee stock options granted is derived from historical exercise patterns of the options, and the expected term of ESPP is based on the contractual terms. The expected term of options granted is derived from the historical option exercises, post-vesting cancellations, and estimates concerning future exercises and cancellations for vested and unvested options that remain outstanding. The expected term slightly increased from 3.6 years in 2009 to 3.7 years in 2010. The higher expected life of options was mainly due to lower exercises in 2009 by our executive officers and other key employees. The expected term slightly increased from 3.3 years in 2008 to 3.6 years in 2009. The higher expected life of options was mainly due to lower exercises in 2008 by our executive officers and other key employees.

The risk-free interest rate for the expected term of the option and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant. The risk-free interest rate declined in 2010 and 2009 compared to prior years. The Company records stock-based compensation for RSUs and options granted net of estimated forfeiture rates.

ASC 718, Stock Compensation, requires the Company to estimate forfeiture rates at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical forfeitures to estimate its future forfeiture rates. The Company increased its forfeiture rate for stock options from 8% in 2009 to 10% in 2010, which did not materially impact stock compensation expense. The forfeiture rate for RSUs remained at 10% for both 2009 and 2010. The Company reduced its forfeiture rate from 10% in 2008 to 8% in 2009 due to lower historical cancellation rates.

The Company amortizes its stock-based compensation using a straight-line method over the vesting term of the awards.

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

	Years Ended December 31,		
	2010	2009	2008
Option grants:			
Expected volatility	34-39%	37-48%	38-54%
Weighted-average volatility	36%	40%	41%
Expected term of options (in years)	3.7	3.6	3.3
Expected dividends	—	—	—
Risk-free interest rate	1.8%	1.7%	2.5%
ESPP:			
Expected volatility	33-36%	34-51%	38-42%
Weighted-average volatility	34%	44%	40%
Expected dividends	—	—	—
Expected term (in years)	0.5	0.5	0.5
Risk-free interest rate	0.2%	0.3%	2.0%

The allocation of the stock-based compensation, net of income tax benefit, is as follows (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Cost of service revenues	$2,689	$2,199	$2,023
Research and development	7,400	4,813	4,109
Sales and marketing	7,317	5,976	5,397
General and administrative	6,032	4,938	4,792
Total stock-based compensation	23,438	17,926	16,321
Tax benefit of stock-based compensation	(4,945)	(3,794)	(3,024)
Total stock-based compensation, net of tax benefit	$18,493	$14,132	$13,297

Stock Option Plan Activity

A summary of stock option activity through December 31, 2010 is presented below (in thousands, except per share amounts):

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	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	17,335	$10.05	4.66	$138,392
Granted	3,631	16.56		
Exercised	(2,313)	8.22		
Forfeited or expired	(940)	14.57		
Outstanding at December 31, 2008	17,713	$11.35	4.31	$58,342
Granted	810	19.29		
Exercised	(3,472)	9.57		
Forfeited or expired	(337)	15.49		
Outstanding at December 31, 2009	14,714	$12.11	3.85	$202,583
Granted	2,122	25.48		
Exercised	(4,249)	10.90		
Forfeited or expired	(226)	17.43		
Outstanding at December 31, 2010	12,361	$14.73	3.87	$362,236
Exercisable at December 31, 2010	8,804	$11.94	3.23	$282,544

The Company started granting RSUs in 2009. A summary of RSU activity through December 31, 2010 is presented below (in thousands, except per share amounts):

	Non-vested Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2008	—	—
Awarded	1,018	$15.04
Released	—	—
Forfeited or expired	(15)	$13.24
Outstanding at December 31, 2009	1,003	—
Awarded	742	$28.13
Released	(290)	—
Forfeited or expired	(50)	$20.34
Outstanding at December 31, 2010	1,405	—

As of December 31, 2010, there was a total of 3,557,400 unvested options with a fair value of $19.2 million and average grant price of $21.63. The Company expects to recognize the fair value of the unvested shares over a weighted-average period of 2.3 years.

As of December 31, 2010, there was a total of 1,404,829 unvested RSUs with a fair value of $20.6 million. The Company expects to recognize the fair value of the unvested RSUs over a weighted-average period of 2.8 years.

The weighted-average fair value of options granted with exercise prices equal to fair market value at the date of grant under stock options plans during 2010, 2009, and 2008 was $8.03, $6.02, and $5.22, respectively. No options were granted with exercise prices less than fair value at the date of grant in 2010 and 2009. The total intrinsic value of options exercised for the years ended 2010, 2009, and 2008 were $89.1 million, $34.0 million, and $20.8 million, respectively. The weighted average grant date fair value of RSUs for the year ended December 31, 2010 was $21.77. The RSUs granted in 2010 vest in 2011 through 2014. The weighted-average grant date fair value of employee stock purchase shares granted under the ESPP for the years ended December 31, 2010, 2009, and 2008 was $6.64, $4.04, and $4.65, respectively. The total intrinsic value of stock purchase shares granted under the ESPP exercised during the years ended December 31, 2010, 2009, and 2008 was $5.4 million, $3.7 million, and $2.7 million,

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respectively. Upon the exercise of options and stock purchase shares granted under the ESPP, the Company issues new common stock from its authorized shares.

The following table summarizes information about stock options as of December 31, 2010 (number of options in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share
$0.72 to $0.72	12	1.22	$0.72	12	$0.72
$0.88 to $5.69	2,672	3.50	$5.64	2,671	$5.64
$5.76 to $12.64	1,933	2.25	$10.44	1,864	$10.46
$12.65 to $14.95	1,853	3.57	$14.23	1,371	$14.32
$15.04 to $16.29	1,816	3.40	$15.75	1,345	$15.61
$16.30 to $22.45	2,080	4.24	$18.94	1,297	$18.36
$24.38 to $43.60	1,995	6.25	$26.27	244	$24.89
	12,361	3.87	$14.73	8,804	$11.94

Disclosures Pertaining to All Stock-Based Compensation Plans

Cash received from option exercises and ESPP contributions under all stock-based compensation arrangements for the years ended 2010, 2009, and 2008 were $57.6 million, $41.8 million, and $27.5 million, respectively. The total realized tax benefits attributable to stock options exercised were $23.4 million, $11.0 million, and $6.6 million for the years ended December 31, 2010, 2009, and 2008 respectively. The gross excess tax benefits from stock-based compensation in the fiscal year ended December 31, 2010, 2009, and 2008 were $22.9 million, $8.7 million, and $5.1 million, respectively, as reported on the consolidated statements of cash flows in the financing activities section, which represent a reduction in income taxes otherwise payable during the periods. These amounts are related to the actual gross tax benefits in excess of the expected tax benefits for stock options exercised in 2010, 2009, and 2008.

9. Accumulated Other Comprehensive Income

Accumulated other comprehensive income refers to gains and losses that are recorded as an element of stockholders' equity and are excluded from net income, net of tax. For the years ended December 31, 2010, 2009, and 2008, the components of other comprehensive income consisted of the following (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Net income, as reported	$86,324	$64,211	$55,980
Other comprehensive income:			
Unrealized gain (loss) on investments [1]	(75)	(647)	658
Cumulative translation adjustments [2]	(4,294)	3,562	(10,090)
Derivative gain (loss) [3]	(193)	(142)	51
Comprehensive income	$81,762	$66,984	$46,599

(1) The tax effects on unrealized gain (loss) on investments were negligible for the year ended December 31, 2010 and $(0.4) million and $0.3 million for the years ended December 31, 2009 and 2008, respectively.

(2) The tax effects on cumulative translation adjustments were $(0.1) million for the year ended December 31, 2010 and negligible for the years ended December 31, 2009, and 2008, respectively.

(3) The tax effects on cash flow hedging gain (loss) were $(0.1) million for both the years ended December 31, 2010 and

2009, respectively, and negligible in 2008.

The ending balance of accumulated other comprehensive income (loss) as of December 31, 2010 and 2009 consisted of the following (in thousands):

	December 31, 2010	2009
Net unrealized gain on available-for-sale investments	$157	$232
Cumulative translation adjustments	(5,403)	(1,109)
Derivative loss	(284)	(91)
Accumulated other comprehensive loss	$(5,530)	$(968)

Informatica did not have any other-than-temporary gain or loss reflected in accumulated other comprehensive income (loss) as of December 31, 2010 and 2009.

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

The following table reflects the change in accumulated investment unrealized gain (loss) included in other comprehensive income for the years ended December 31, 2010 and 2009 (in thousands):

	Years Ended December 31, 2010	2009
Net unrealized investment gain balance, net of tax effects at beginning of the year	$232	$879
Investment unrealized gain (loss), net of tax effects	(75)	(647)
Net unrealized investment gain balance, net of tax effects at end of the year	$157	$232

The following table reflects the change in accumulated derivatives gain (loss) included in other comprehensive income for the years ended December 31, 2010 and 2009 (in thousands):

	Years Ended December 31, 2010	2009
Net unrealized derivatives gain balance, net of tax effects at beginning of the year	$(91)	$51
Reclassified to the statement of income, net of tax effects	(58)	97
Derivatives loss for hedging transactions, net of tax effects	(135)	(239)
Net unrealized derivatives loss balance, net of tax effects at end of the year	$(284)	$(91)

See Note 2. Summary of Significant Accounting Policies, Note 10. Derivative Financial Instruments, and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements for a further discussion.

10. Derivative Financial Instruments

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

Informatica's results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Australian dollar, Brazilian real, British pound sterling, Canadian dollar, euro, Indian rupee, Israeli shekel, Japanese yen, Mexican peso, and Swiss franc. The Company initiated certain cash flow hedge programs in an attempt to reduce the impact of certain foreign currency fluctuations starting in the fourth quarter of 2008. The purpose of these programs is to reduce the volatility of identified cash flow and expenses caused by movement in certain foreign currency exchange rates, in particular, the euro, Indian rupee and Israeli shekel. Informatica is currently using foreign exchange forward contracts to hedge certain non-functional currency anticipated expenses and revenue reflected in the intercompany accounts between Informatica U.S. and its subsidiaries in Cayman, India, Israel, and the Netherlands. Exposures resulting from fluctuations in the foreign currency exchange rates applicable to these foreign denominated expenses are covered through the Company's cash flow hedge programs initiated since the fourth quarter of 2008. The foreign exchange contracts initiated in 2008 expired in November 2009. In December 2009, the Company entered into some additional forward contracts with monthly expiration dates through January 18, 2011 for Indian rupees and Israeli shekels. In December 2010, the Company entered into some additional forward contracts with monthly expiration dates through January 17, 2012. The Company releases the amounts accumulated in other comprehensive income into earnings in the same period or periods during which the forecasted hedge transaction affects earnings.

Informatica has forecasted the amount of its anticipated foreign currency expenses and intercompany revenue based on its historical performance and its 2010 and 2011 financial plans. As of December 31, 2010, these foreign exchange contracts, carried at fair value, have a maturity of 13 months or less. During the fourth quarter of 2010, the Company entered into approximately 36 forward exchange contracts ranging between $0.3 million and $2.2 million per month. The Company closes out approximately three foreign exchange contracts per month when the foreign currency denominated expenses are paid or intercompany revenue is received and any gain or loss is offset against expense. Informatica and its subsidiaries do not enter into derivative contracts for speculative purposes.

As of December 31, 2010, a derivative loss of $0.3 million was included in accumulated other comprehensive income, net of applicable taxes. The Company expects to reflect this amount in its consolidated statements of income during the next 12 months.

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

The effects of derivative instruments designated as cash flow hedges on the accumulated other comprehensive income and consolidated statements of income for the years ended December 31, 2010 and 2009 are as follows (in thousands):

	Year Ended December 31, 2010			Year Ended December 31, 2009		
	Gain (Loss) Recognized (1)	Gain (Loss) Reclassified (2)	Gain (Loss) Recognized (3)	Gain (Loss) Recognized (1)	Gain (Loss) Reclassified (2)	Gain (Loss) Recognized (3)
Euro	$(384)	$ —	$ —	$—	$ —	$ —
Indian rupee	42	67	81	(264)	(52)	153
Israeli shekel	126	25	(1)	(128)	(108)	10
Total	$(216)	$ 92	$ 80	$(392)	$ (160)	$ 163

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

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

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

See Note 2. Summary of Significant Accounting Policies, Note 9. Accumulated Other Comprehensive Income, and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements for a further discussion.

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The following tables reflect the fair value amounts for derivatives designated and not designated as hedging instruments at December 31, 2010 and 2009:

Derivatives Designated as Hedging Instruments under ASC 815:	Derivative Assets at December 31, 2010 (1)	Derivative Liabilities at December 31, 2010 (1)
Euro	$—	$384
Indian rupee	—	185
Israeli shekel	102	—
Total	$102	$569

Derivatives Designated as Hedging Instruments under ASC 815:	Derivative Assets at December 31, 2009 (1)	Derivative Liabilities at December 31, 2009 (2)
Indian rupee	$—	$206
Israeli shekel	1	—
Total	$1	$206

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

Derivatives Not Designated as Hedging Instruments under ASC 815:	Derivative Assets at December 31, 2010 (1)	Derivative Liabilities at December 31, 2010 (1)
Euro	$—	$—
Indian rupee	29	—
Israeli shekel	21	—
Total	$50	$—

There were no derivative assets or liabilities not designated as hedging instruments at December 31, 2009.

The gain recognized in other income, net for non-designated foreign currency forward contracts for the years ended December 31, 2010 and 2009 is as follows (in thousands):

Gain Recognized in Other income, Net for Derivatives Not Designated as Hedging Instruments:	Years Ended December 31, 2010	2009
Euro	$—	$—
Indian rupee	120	127
Israeli shekel	(2)	101
Total	$118	$228

11. Facilities Restructuring Charges

2004 Restructuring Plan

In October 2004, the Company announced a restructuring plan ("2004 Restructuring Plan") related to the December 2004 relocation of the Company's corporate headquarters within Redwood City, California. In 2005, the Company subleased the available space at the Pacific Shores Center under the 2004 Restructuring Plan. The Company recorded restructuring charges of approximately

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$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 three-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 $6.4 million in 2011, $4.2 million in 2012, and $1.9 million in 2013.
Subsequent to 2004, the Company continued to record accretion on the cash obligations related to the 2004 Restructuring Plan. Accretion represents imputed interest and is the difference between the non-discounted future cash obligations and the discounted present value of these cash obligations. At December 31, 2010, the Company will recognize approximately $2.9 million of accretion as a restructuring charge over the remaining three-year term of the lease as follows: $1.7 million in 2011, $1.0 million in 2012, and $0.2 million in 2013.
2001 Restructuring Plan
During 2001, the Company announced a restructuring plan (“2001 Restructuring Plan”) and recorded restructuring charges of approximately $12.1 million, consisting of $1.5 million in leasehold improvement and asset write-offs and $10.6 million related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas.
During 2002, the Company recorded additional restructuring charges of approximately $17.0 million, consisting of $15.1 million related to estimated facility lease losses and $1.9 million in leasehold improvement and asset write-offs. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area.
In December 2004, the Company recorded additional restructuring charges of $9.0 million related to estimated facility lease losses. The restructuring accrual adjustments recorded in the third and fourth quarters of 2004 were the result of the relocation of its corporate headquarters within Redwood City, California in December 2004, an executed sublease for the Company’s excess facilities in Palo Alto, California during the third quarter of 2004, and an adjustment to management’s estimate of occupancy of available vacant facilities. In 2005, the Company subleased the available space at the Pacific Shores Center under the 2001 Restructuring Plan through May 2013, which was subsequently subleased until July 2013 under a December 2007 sublease agreement.
A summary of the activity of the accrued restructuring charges for the years ended December 31, 2010 and 2009 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2009	Restructuring Charges	Restructuring Adjustments	Net Cash Payment	Non-Cash Reclass	Accrued Restructuring Charges at December 31, 2010
2004 Restructuring Plan						
Excess lease facilities	$47,496	$2,429	$(544)	$(13,205)	$(2,385)	$33,791
2001 Restructuring Plan						
Excess lease facilities	5,229	—	(752)	(1,584)	2,224	5,117
Total restructuring plans	$52,725	$2,429	$(1,296)	$(14,789)	$(161)	$38,908

	Accrued Restructuring Charges at December 31, 2008	Restructuring Charges	Restructuring Adjustments	Net Cash Payment	Non-Cash Reclass	Accrued Restructuring Charges at December 31, 2009
2004 Restructuring Plan						
Excess lease facilities	$56,356	$2,820	$225	$(11,740)	$(165)	$47,496
2001 Restructuring Plan						

Excess lease facilities	8,112	—	(1,384)	(1,499)	—	5,229
Total restructuring plans	$64,468	$2,820	$(1,159)	$(13,239)	$(165)	$52,725

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In 2010, the Company recorded $1.1 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included $2.2 million of accretion charges and a $0.2 million charge for amortization of tenant improvements, partially offset by an adjustment of $1.3 million due to changes in our assumed sublease income.

In 2009, the Company recorded $1.7 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included $2.8 million of accretion charges and a $0.1 million charge for amortization of tenant improvements, partially offset by an adjustment of $1.3 million due to changes in our assumed sublease income.

Net cash payments for 2010, 2009, and 2008 for facilities included in the 2004 Restructuring Plan amounted to $13.2 million, $11.7 million, and $11.1 million, respectively. Net cash payments for 2010, 2009, and 2008 for facilities included in the 2001 Restructuring Plan amounted to $1.6 million, $1.5 million, and $1.6 million, respectively.

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

12. Employee 401(K) Plan

The Company's employee savings and retirement plan (the "Plan") is qualified under Section 401 of the Internal Revenue Code. The Plan is available to all regular employees on the Company's U.S. payroll and provides employees with tax deferred salary deductions and alternative investment options. Employees may contribute up to 50% of their salary up to the statutory prescribed annual limit. The Company matches 50% per dollar contributed by eligible employees who participate in the Plan, up to a maximum of $2,500 per calendar year. Contributions made by the Company vest 100% upon contribution. The Company contributed $2.1 million, $1.8 million, and $1.7 million for the years ended December 31, 2010, 2009, and 2008 respectively. In addition, the Plan provides for discretionary contributions at the discretion of the Board of Directors. No discretionary contributions have been made by the Company to date.

13. Income Taxes

The federal, state, and foreign income tax provisions for the years ended December 31, 2010, 2009, and 2008 are summarized as follows (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Current tax provision:			
Federal	$21,372	$22,272	$24,949
State	5,689	5,593	5,589
Foreign	4,564	5,931	12,531
Total current tax provision	31,625	33,796	43,069
Deferred tax provision:			
Federal	4,517	(5,570)	(3,860)
State	(859)	(768)	(1,840)
Foreign	(458)	(1,851)	(1,376)

Total deferred tax provision	3,200	(8,189)	(7,076)
Total provision for income taxes	$34,825	$25,607	$35,993

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The components of income before income taxes attributable to domestic and foreign operations are as follows (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Domestic	$83,556	$52,955	$57,146
Foreign	37,593	36,863	34,827
	$121,149	$89,818	$91,973

A reconciliation of the provision computed at the statutory federal income tax rate to the Company's income tax provision is as follows (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Income tax provision computed at federal statutory tax rate	$42,402	$31,437	$32,190
State taxes, net of federal benefit	3,890	3,126	2,890
Foreign earnings taxed at different rates	(8,964)	(9,533)	(1,563)
Stock-based compensation	2,080	967	1,064
Return to provision true-up	(1,125)	(2,416)	138
Research and development credits	(2,755)	(1,361)	(638)
ASC 740-10 and other	(703)	3,387	1,612
Valuation allowance	—	—	300
Total provision for income taxes	$34,825	$25,607	$35,993

Significant components of the Company's deferred tax assets are as follows (in thousands):

	December 31,	
	2010	2009
Deferred tax assets:		
Net operating loss carryforwards	$33,443	$8,803
Tax credit carryforwards	6,415	16,196
Deferred revenue	10,194	9,011
Reserves and accrued costs not currently deductible	11,472	5,477
Depreciable assets	14,154	15,020
Accrued restructuring costs	15,111	20,549
Capitalized research and development	77	166
Stock-based compensation	8,583	7,980
Other	1,982	681
Valuation allowance	(31,697)	(37,507)
Total deferred tax assets	69,734	46,376
Deferred tax liabilities:		
Non-deductible intangible assets	(29,067)	(14,960)
Other	—	—
Total deferred tax liabilities	(29,067)	(14,960)
Net deferred tax assets	$40,667	$31,416

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in 2010, the Company considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies.

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As a result of this analysis for the year ended December 31, 2010, consistent with prior years it was considered more likely than not that our non-stock-based payments related deferred tax assets would be realized. As a result, the remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a "with" and "without" basis and recorded on the balance sheet with a corresponding valuation allowance prior to the Company's adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in the stockholders' equity when they are utilized on an income tax return to reduce the Company's taxes payable, and as such, they will not impact the Company's effective tax rate.

As of December 31, 2010, approximately $31.4 million of the valuation allowance for deferred taxes was attributable to the tax benefits of stock-based deductions which will be credited to equity when realized as discussed in the preceding paragraph. The remaining $0.3 million is related to a capital loss carryforward in a foreign jurisdiction. The valuation allowance decreased by $5.8 million in 2010, $5.3 million in 2009, and $4.3 million in 2008. The declines were primarily due to reductions in stock-based related deferred tax assets to the extent that they were used to reduce income taxes payable.

As of December 31, 2010, the Company had federal net operating loss carryforwards of approximately $88.0 million and foreign tax credit carryforwards of approximately $0.5 million. These attributes will expire at various times beginning in 2019, if not utilized. As of December 31, 2010, the Company had state net operating loss carryforwards of approximately $44.9 million that will expire at various times beginning in 2011 if not utilized, and state research and development tax credit carryforwards of approximately $9.9 million, which can be carried forward indefinitely. Utilization of the Company's net operating loss is subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. We do not anticipate expiration of the net operation loss carryforwards prior to their utilization.

The Company has not provided for U.S. federal and foreign withholding taxes on $19.2 million of undistributed earnings from certain non-U.S. operations as of December 31, 2010 because the Company intends to reinvest such earnings indefinitely outside of the United States. The Company makes the determination of whether to accrue taxes on such earnings on an entity by entity basis. The residual tax liability if such earnings were remitted may be reduced by foreign tax credits or other tax adjustments. Therefore, it is currently not practical to compute.

The Company adopted Financial Accounting Standards Board Interpretation No. 48 (ASC 740), Accounting for Uncertainties in Income Taxes — an Interpretation of FASB Statement No. 109 ("FIN No. 48"), effective January 1, 2007. ASC 740 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. A reconciliation of the beginning and ending amount of the unrecognized tax benefits is as follows (in thousands):

	December 31,		
	2010	2009	2008
Beginning balance	$15,632	$20,779	$7,086
Additions for tax positions of prior years	780	6,095	12,330
Reductions for tax positions of prior years	—	(2,808)	(369)
Additions based on tax positions related to the current year	3,190	1,244	1,732
Reductions due to lapse of statute of limitations	(594)	(430)	—
Reductions due to settlements	(6,608)	(9,248)	—
Ending balance	$12,400	$15,632	$20,779

The unrecognized tax benefits related to ASC 740-10, if recognized, would impact the income tax provision by $11.7 million, $15.5 million, and $12.9 million for the years ended December 31, 2010, 2009, and 2008, respectively. The unrecognized tax benefits were $12.4 million, $15.6 million, and $20.8 million as of December 31, 2010, 2009, and 2008, respectively. The change was primarily due to the settlement with the Internal Revenue Service, the expiration of certain statute of limitations and the accrual for uncertain tax positions. The Company has elected to include interest and penalties as a component of income tax expense. Accrued interest and penalties at December 31, 2010 and

2009 were approximately $1.6 million and $2.3 million, respectively. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company has been informed by certain state and foreign taxing authorities that it was selected for examination. Most state and foreign jurisdictions have three or four open tax years at any point in time. The field work for certain state audits has commenced and is at various stages of completion as of December 31, 2010.

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Although the outcome of any tax audit is uncertain, the Company believes that it has adequately provided in its financial statements for any additional taxes that it may be required to pay as a result of such examinations. The Company regularly assesses the likelihood of outcomes resulting from these examinations to determine the adequacy of its provision for income taxes, and believes its current reserve to be reasonable. If tax payments ultimately prove to be unnecessary, the reversal of these tax liabilities would result in tax benefits in the period that the Company had determined such liabilities were no longer necessary. However, if an ultimate tax assessment exceeds its estimate of tax liabilities, an additional tax provision might be required.

14. Net Income per Common Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution of securities by adding other common stock equivalents, primarily stock options and common shares potentially issuable under the terms of the Convertible Senior Notes, to the weighted-average number of common shares outstanding during the period, if dilutive. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive.

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

	Years Ended December 31,		
	2010	2009	2008
Net income	$86,324	$64,211	$55,980
Effect of convertible senior notes, net of related tax effects	3,848	4,022	4,350
Net income adjusted	$90,172	$68,233	$60,330
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	92,361	87,991	88,109
Effect of dilutive common stock equivalents:			
Dilutive effect of unvested restricted stock units	425	170	—
Dilutive effect of employee stock options	6,248	4,961	3,715
Dilutive effect of convertible senior notes	10,049	10,190	11,454
Shares used in computing diluted net income per common share	109,083	103,312	103,278
Basic net income per common share	$0.93	$0.73	$0.64
Diluted net income per common share	$0.83	$0.66	$0.58

The diluted net income per common share calculation requires the dilutive effect of convertible securities to be reflected in the diluted net income per share by application of the "if-converted" method. This method assumes an add-back of interest and amortization of issuance cost, net of income taxes, to net income if the securities are converted. The Company determined that for years ended December 31, 2010, 2009 and 2008, the Convertible Senior Notes had a dilutive effect on diluted net income per share, and as such, it had an add-back of $3.8 million, $4.0 million, and $4.3 million, respectively, in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation.

In calculating its diluted net income per common share, the Company excluded 0.1 million, 0.3 million, and 3.5 million of its options for the years ended December 31, 2010, 2009, and 2008, respectively, since the inclusion of these options would have been anti-dilutive.

15. Commitments and Contingencies

Lease Obligations

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

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The Company entered into two lease agreements in February 2000 for two office buildings at the Pacific Shores Center in Redwood City, California, which was used as its former corporate headquarters from August 2001 through December 2004. The leases expire in July 2013.
The Company leases certain office facilities under various non-cancelable operating leases, including those described above, which expire at various dates through 2017 and require the Company to pay operating costs, including property taxes, insurance, and maintenance. Rent expense for 2010, 2009, and 2008 was $12.7 million, $11.2 million, and $11.2 million, respectively. Operating lease payments in the table below include approximately $44.9 million for operating lease commitments for facilities that are included in restructuring charges. See Note 11. Facilities Restructuring Charges, above, for a further discussion.
Future minimum lease payments as of December 31, 2010 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases	Sublease Income	Net
2011	$28,031	$3,423	$24,608
2012	29,148	1,639	27,509
2013	20,370	788	19,582
2014	4,484	—	4,484
2015	3,560	—	3,560
Thereafter	1,802	—	1,802
Total future minimum operating lease payments	$87,395	$5,850	$81,545

Of these future minimum lease payments, the Company has accrued $38.9 million in the facilities restructuring accrual at December 31, 2010. This accrual, in addition to minimum lease payments of $44.9 million, includes estimated operating expenses of $11.9 million and sublease commencement costs associated with excess facilities and is net of estimated sublease income of $15.0 million and a present value discount of $2.9 million recorded in accordance with ASC 420, Exit or Disposal Cost Obligations.
Warranties
The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in a customer's signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work-around or replacement product. The Company has provided a warranty accrual of $0.2 million as of December 31, 2010 and 2009. 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 December 31, 2010. 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.

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As permitted under Delaware law, the Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at our request, in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that reduces the Company's exposure and enables the Company to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.
The Company accrues for loss contingencies when available information indicates that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated in accordance with ASC 450, Contingencies.
Derivative Financial Instruments
Informatica uses foreign exchange forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such cash flow exposures result from portions of its forecasted expenditures denominated in currencies other than U.S. dollar, primarily the Indian rupee and Israeli shekel and forecasted intercompany revenue denominated in euros. As of December 31, 2010, these foreign exchange forward contracts, carried at fair value, have a maturity of 13 months or less. Informatica enters into these foreign exchange forward contracts to hedge forecasted operating expenditures in the normal course of business, and accordingly, they are not speculative in nature.
As of December 31, 2010, the notional amounts of the foreign exchange forward contracts that the Company committed to purchase in the fourth quarter of 2010 for the euro, Indian rupees, and Israeli shekels were $26.3 million, $20.0 million, and $4.6 million, respectively.
See Note 2. Summary of Significant Accounting Policies, Note 9. Accumulated Other Comprehensive Income, and Note 10. Derivative Financial Instruments of Notes to Consolidated Financial Statements for a further discussion.

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

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

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

All parties in all lawsuits have reached a settlement, which, as noted above, will not require the Company to contribute cash unless the pro rata amount paid by the insurers in the settlement exceeds the amount of the insurance coverage. The Court gave preliminary approval to the settlement on June 10, 2009 and gave final approval on October 6, 2009. Several objectors have filed notices of appeals of the final judgment dismissing the cases upon the settlement.

On November 24, 2008, Data Retrieval Technologies LLC ("Data Retrieval") filed a complaint in the Western District of Washington against the Company and Sybase, Inc. ("Sybase"), alleging patent infringement of U.S. Patent Nos. 6,026,392 (the "‘392 patent") and 6,631,382 (the "‘382 patent"). On December 5, 2008, the Company and Sybase filed an action in the Northern District of California against Data Retrieval, Timeline, Inc. ("Timeline") and TMLN Royalty, LLC ("TMLN Royalty"), asserting declaratory relief claims for non-infringement and invalidity of the ‘392 and ‘382 patents. On January 15, 2009, we filed an answer to the complaint in the Western District of Washington and asserted declaratory relief counterclaims for non-infringement and invalidity of the ‘392 and ‘382 patents. In addition, on January 15, 2009, Informatica and Sybase filed a voluntary dismissal without prejudice of Timeline and TMLN Royalty in the Northern District of California action. On April 1, 2009, in the Northern District of California action, Data Retrieval filed an answer and asserted counterclaims for patent infringement of the ‘382 and ‘392 patents. On April 8, 2009, the Court in the Western District of Washington transferred that action to the Northern District of California. On April 21, 2009, the Company filed its reply to Data Retrieval's counterclaims in the Northern District of California. Following Data Retrieval's service of its Disclosure of Asserted Claims and Preliminary Infringement Contentions on June 8, 2009, on June 18, 2009, the Company filed a motion for partial summary judgment of the following claims and issues: (1) non-infringement of the ‘382 patent; (2) non-infringement of the unasserted claims (claims 2-25) of the ‘392 patent; and (3) no infringement of either patent-in-suit by the Informatica PowerCenter product. On September 11, 2009, the Court granted the Company's motion for partial summary judgment on all of the claims and issues requested by the Company. On June 23, 2010, the Court granted in part and denied in part an additional motion for summary judgment filed by the Company. The Court ruled that the Company was entitled to summary judgment on the issue of inducement to infringe and contributory infringement, but denied the motion as to Data Retrieval's claim of direct infringement. On November 8, 2010, the Court granted the Company's further motion for summary judgment for invalidity of the sole remaining asserted claim of the ‘392 patent.

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

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

Litigation is subject to inherent uncertainties. Given such uncertainties, the Company has from time to time discussed settlement in the context of litigation and has accrued, based on Contingencies (ASC 450), for estimates of settlement. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position and results of operation for the period in which the unfavorable outcome occurred, and potentially in future periods.

17. Related Party Transaction

Mark A. Bertelsen, a director of Informatica since September 2002, serves as a member of Wilson Sonsini Goodrich & Rosati ("WSGR"), our principal outside legal counsel. Fees paid by the Company to WSGR for legal services rendered for the years ended December 31, 2010, 2009, and 2008 were $1.4 million, $1.4 million, and $0.9 million, respectively. The Company believes that the services rendered by WSGR were provided on terms no more or less favorable than those with unrelated parties.

18. Significant Customer Information and Segment Information

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

No customer accounted for more than 10% of revenue in 2010, 2009, and 2008. At December 31, 2010 and 2009, no customer accounted for more than 10% of the accounts receivable balance. North America revenues include the United States and Canada. Revenue from international customers (defined as those customers outside of North America) accounted for 34%, 36%, and 35% of total revenues in 2010, 2009, and 2008, respectively.

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

	Years Ended December 31,		
	2010	2009	2008
Revenues:			
North America	$431,270	$321,901	$297,093
Europe	161,969	129,886	122,458
Other	56,837	48,906	36,148
Total revenues	$650,076	$500,693	$455,699

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

	December 31,	
	2010	2009
Long-lived assets, net (excluding assets not allocated):		
North America	$81,762	$65,384
Europe	4,145	4,610
Other	1,886	1,520
Total long-lived assets	$87,793	$71,514

The Company’s revenues are derived from software licenses, maintenance, consulting and education services, and customer support. It is impracticable to disaggregate software license revenue by product. The Company’s disaggregated revenue information is as follows (in thousands):

	Years Ended December 31,		
	2010	2009	2008
License	$295,110	$214,322	$195,769
Service Revenues:			
Maintenance	255,417	215,315	186,212
Consulting, education, and other	99,549	71,056	73,718
Total services revenues	354,966	286,371	259,930
Total revenues	$650,076	$500,693	$455,699

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19. Selected Quarterly Financial Information (Unaudited)

	Three Months Ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(In thousands, except per share data)			
Total revenues	$198,035	$161,250	$155,661	$135,130
Gross profit	166,073	131,377	125,861	108,336
Facilities restructuring charges	(412)	553	336	656
Income from operations	49,070	32,398	25,451	14,916
Net income	34,632	22,471	17,427	11,794
Net income per common share:				
Basic	$0.37	$0.24	$0.19	$0.13
Diluted	$0.32	$0.21	$0.17	$0.12
Shares used in computing basic net income per common share:				
Basic	94,186	92,794	91,673	90,748
Diluted	111,463	109,494	107,959	107,374

	Three Months Ended			
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	(In thousands, except per share data)			
Total revenues	$150,897	$123,394	$117,344	$109,058
Gross profit	126,389	101,906	96,483	88,281
Facilities restructuring charges	(300)	557	595	809
Income from operations	35,000	22,288	17,087	14,994
Net income	24,971	16,192	11,989	11,059
Net income per common share:				
Basic	$0.28	$0.18	$0.14	$0.13
Diluted	$0.25	$0.17	$0.13	$0.12
Shares used in computing basic net income per common share:				
Basic	89,589	88,283	87,198	86,862
Diluted	105,807	103,516	100,692	100,430

Diluted net income per common share is calculated according to ASC 260, 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 issuance cost amortization, net of income taxes to net income if the securities are converted. The Company determined that for the years ended December 31, 2010, 2009, and 2008, the Convertible Senior Notes had a dilutive effect on diluted net income per share, and as such, they had an add-back of $3.8 million, $4.0 million, and $4.3 million, respectively in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation.

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20. Acquisitions
Acquisitions in 2010
Siperian, Inc.

On January 28, 2010, the Company acquired Siperian, Inc. (“Siperian”), a privately-held company. Siperian provides an integrated model-driven master data management (“MDM”) platform that adapts to most business requirements. The Company acquired Siperian in a cash merger transaction valued at approximately $130.0 million. As a result of this acquisition, the Company also assumed certain facility leases and certain liabilities and commitments. Approximately $18.3 million of the consideration otherwise payable to former Siperian stockholders, vested option holders, and participants in Siperian's Management Acquisition Bonus Plan was placed into an escrow fund and held as partial security for the indemnification obligations of the former Siperian stockholders, vested option holders, and participants in Siperian's Management Acquisition Bonus Plan set forth in the merger agreement and for purposes of the working capital adjustment stated in the contract. The escrow fund will remain in place until July 28, 2011, although a portion of the escrow funds were paid out in February 2011.

The following table presents the purchase price allocation of $102.9 million and the acquiree's transaction related costs and debt settlement of $27.1 million, which were paid by the Company on January 28, 2010 or shortly thereafter (in thousands):

Goodwill	$78,360
Developed and core technology	21,340
Customer relationships	1,630
In-process research and development	1,920
Assumed liabilities, net of assets	(333)
Total purchase price allocation	102,917
Acquiree's transaction related costs and debt settlement	27,083
Total	$130,000

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

Informatica has finalized plans to terminate certain employees and vacate certain facilities of Siperian. The cost associated with such exit activities, which are reflected in Acquisitions and other in the Statement of Income, is as follows (in thousands):

Termination of certain employees	$326
Vacating certain facilities of Siperian	1,121
Total	$1,447

Informatica does not expect to incur any additional expenses related to these exit activities in the future.

The following table presents the unaudited pro forma results of Informatica (including Siperian) for the years ended December 31, 2010 and 2009 (in thousands, except per share amounts). The unaudited pro forma financial information combines the results of operations of Informatica and Siperian as though the companies had been combined as of the beginning of each of the fiscal years presented. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2010 or 2009. The unaudited pro forma results presented include amortization charges for acquired intangible assets, eliminations of intercompany transactions, adjustments to interest expense and interest income, adjustment of deferred revenues to its estimated fair values, and tax adjustments and tax benefits related to the acquisition.

	December 31,	
	2010	2009
Pro forma total revenues	$650,995	$526,147
Pro forma net income	$80,098	$50,818
Pro forma net income per share - basic	$0.87	$0.58
Pro forma net income per share - diluted	$0.77	$0.53
Pro forma weighted-average basic shares	92,361	87,991
Pro forma weighted-average diluted shares	109,083	103,312

See Note 14. Net Income per Common Share for a discussion of the calculation of basic and diluted net income per share.

29West Inc.

On March 22, 2010, the Company acquired 29West Inc. ("29West"), a privately-held company. 29West develops high-speed messaging software, known as Ultra Messaging. This software is used for distribution of data, streaming market data, and proprietary trading and market making, and is sold to banks, hedge funds, exchanges, and software application vendors worldwide. The Company acquired 29West in a stock purchase transaction valued at approximately $50.0 million. As a result of this acquisition, the Company also assumed certain facility leases, liabilities, and commitments. Approximately $7 million of the consideration otherwise payable to former 29West stockholders and vested option holders was placed into an escrow fund and held as partial security for the indemnification obligations of the former 29West stockholders and vested option holders. The escrow fund will remain in place until September 22, 2011.

The following table presents the purchase price allocation of $47.0 million and the acquiree's transaction related costs of $3.0 million. This amount consists of investment banker, legal and accounting fees, and certain employee related compensation as of the date of this acquisition (in thousands):

Goodwill	$36,397
Developed and core technology	9,750
Customer relationships	590
Assumed assets, net of liabilities	262
Total purchase price allocation	46,999
Acquiree's transaction related costs and debt settlement	3,001
Total	$50,000

The goodwill is not deductible for tax purposes.

Acquisitions in 2009

Agent Logic

On September 1, 2009, the Company acquired Agent Logic, Inc. ("Agent Logic"), a privately held company. Agent Logic specializes in the development and marketing of complex event processing software which supports security initiatives in highly complex environments. Informatica acquired all of the capital stock of Agent Logic in a cash merger transaction for $35 million, of which $6.1 million is held in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by Agent Logic. The escrow fund will remain in place for a period of eighteen months from the date of acquisition, although a portion of the escrow funds were paid out in September 2010.

Informatica is obligated to pay certain variable and deferred earn-out payments if certain license order targets are achieved. The Company determined the fair market value of these earn-outs based on probability analysis. The fair market value and gross amount of these earn-outs at the time of acquisition were $2.6 million and $3.1 million, respectively. Changes in this estimate are recorded in the statement of income.

Informatica is obligated to pay certain employees of Agent Logic retention bonuses of approximately $0.8 million if they continue to provide their employment services for a certain period of time. These expenses are recorded as the services are performed

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between 12 to 24 months subsequent to the acquisition date.

The excess of the purchase price over the identified tangible and intangible assets was recorded as goodwill. Using the information available at the time of the acquisition, the Company allocated approximately $13.0 million of the purchase price to identified intangible assets and $1.8 million of the purchase price to net tangible assets. Identified intangible assets included developed and core technology, customer relationships, and trade names. The Company recorded the excess purchase price of $24.4 million as goodwill, which is not deductible for tax purposes. The trade names and developed and core technology are being amortized over five years, and customer relationships are being amortized over six years.

AddressDoctor GmbH

On June 2, 2009, Informatica GmbH, a wholly owned subsidiary of Informatica, acquired AddressDoctor GmbH (“AddressDoctor"), a limited liability company. AddressDoctor is a leading provider of international address verification and cleaning solutions that enables users to validate and correct postal addresses and assists in the data capturing process. Informatica acquired all of the capital stock of AddressDoctor for approximately $27.8 million.

The excess of the purchase price over the identified tangible and intangible assets was recorded as goodwill. Using the information available at the time of the acquisition, the Company allocated approximately $9.7 million of the purchase price to net intangible assets and $5.0 million to net assumed liabilities. Identified intangible assets included developed and core technology, vendor relationships, customer relationships, and trade names. The Company recorded the excess purchase price of $23.0 million as goodwill, of which $6.8 million will be deductible for tax purposes due to the sale of intellectual property rights to the U.S. entity. The trade names and the developed and core technology are being amortized over five years, vendor relationships are being amortized over five years, and customer relationships are being amortized over six years.

Applimation

On February 13, 2009, the Company acquired Applimation, Inc. (“Applimation”), a privately held company, providing application Information Lifecycle Management (ILM) technology. The acquisition extends the Company's data integration software to include Applimation’s technology. The Company acquired all of the capital stock of Applimation in a cash merger transaction valued at approximately $37.2 million, including in $1.6 million retention bonuses payable three to eighteen months subsequent to acquisition date. As a result of this acquisition, the Company also assumed certain facility leases and certain liabilities and commitments.

Informatica is obligated to reimburse certain employees of Applimation for an approximate bonus of $1.6 million if they continue to provide their employment services for a certain period of time. If they discontinue their services for any reason, these amounts are payable to original shareholders of Applimation. These expenses are recorded as the services are performed between three to 18 months subsequent to the acquisition date.

The Company determined, based on probability analysis, that the amount of bad debt reserve for the accounts receivable acquired through acquisition was $0.4 million. In the fourth quarter of 2010, Informatica increased this estimate by an additional $0.4 million, due to additional probability analysis. Informatica reflected the excess of this estimate of $0.4 million in its statement of income in the fourth quarter of 2009 based on ASC 805.

The excess of the purchase price over the identified tangible and intangible assets was recorded as goodwill. Using the information available at the time of the acquisition, the Company allocated approximately $20.0 million of the purchase price to net intangible assets and $4.1 million to net assumed liabilities. Identified intangible assets included developed and core technology, customer relationships, and trade names. The Company recorded the excess purchase price of $19.7 million as goodwill, which is not deductible for tax purposes. The trade names and developed and core technology are being amortized over five years, and customer relationships are being amortized over six years.

21. Subsequent Event

In February 2011, we called for redemption on March 18, 2011 all of the Company's remaining Convertible Notes.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) 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 Annual Report on Form 10-K. 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 (1) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to Informatica's management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of 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.

(b) Management's annual report on internal control over financial reporting. The information required to be furnished pursuant to this item is set forth under the captions "Report of Management on Internal Control Over Financial Reporting" and "Report of Independent Registered Accounting Firm" in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

(c) Change in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the fourth quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of January 31, 2011:

Name	Age	Position(s)
Sohaib Abbasi	54	Chairman of the Board, Chief Executive Officer and President
Earl Fry	52	Chief Financial Officer, Chief Administrative Officer, Executive Vice President, Global Customer Support and Secretary
Ivan Chong	43	Executive Vice President, Data Quality Product Division
Paul Hoffman	60	Executive Vice President and President, Worldwide Field Operations
James Markarian	44	Chief Technology Officer and Executive Vice President
Girish Pancha	46	Executive Vice President and General Manager, Data Integration Product Division

Our executive officers are appointed by, and serve at the discretion of, the Board of Directors. There is no family relationship between any of our executive officers or directors.

Sohaib Abbasi has been our President and Chief Executive Officer since July 2004 and a member of our Board of Directors since February 2004. From 2001 to 2003, Mr. Abbasi was Senior Vice President, Oracle Tools Division and Oracle Education at Oracle Corporation, which he joined in 1982. From 1994 to 2000, he was Senior Vice President

Oracle Tools Product Division at

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Oracle Corporation. Mr. Abbasi graduated with honors from the University of Illinois at Urbana-Champaign in 1980, where he earned both a B.S. and an M.S. degree in computer science.

Earl Fry joined us as the Chief Financial Officer and Senior Vice President in December 1999. In July 2002, Mr. Fry became the Secretary. In August 2003, Mr. Fry was promoted to Executive Vice President. In January 2010, Mr. Fry was promoted to Chief Administrative Officer and Executive Vice President, Global Customer Support. From November 1995 to December 1999, Mr. Fry was Vice President and Chief Financial Officer at Omnicell Technologies, Inc. From July 1994 to November 1995, he was Vice President and Chief Financial Officer at C*ATS Software, Inc. Mr. Fry holds a B.B.A. degree in accounting from the University of Hawaii and an M.B.A. degree from Stanford University. Mr. Fry serves on the Board of Directors of Central Pacific Financial Corporation.

Ivan Chong joined Informatica in October 1997 with responsibilities overseeing product management for Informatica's flagship product PowerCenter. In February 2005, Mr. Chong became Vice President of Product Marketing. In January 2007, Mr. Chong was promoted to Senior Vice President and General Manager for Informatica's Data Quality Business Unit. In January 2010, Mr. Chong was promoted to Executive Vice President of Data Quality. From December 1995 to September 1997 he worked at an Internet advertising startup, NetGravity. From September 1989 to December 1995, Mr. Chong had various product management roles at Oracle Corporation within the Oracle Tools Division. Mr. Chong holds both an M.S. degree and a B.S. degree from MIT's Department of Electrical Engineering and Computer Science.

Paul Hoffman joined us as Executive Vice President, Worldwide Sales in January 2005. In January 2010, Mr. Hoffman was promoted to Executive Vice President and President, Worldwide Field Operations. Mr. Hoffman was Executive Vice President of Worldwide Sales at Cassatt Corporation from August 2003 to December 2004. From April 1999 to June 2003, Mr. Hoffman was Vice President of the Americas at SeeBeyond Technology Corporation. He served as Vice President Worldwide Sales for Documentum from September 1996 to April 1999. Mr. Hoffman also spent 10 years at Oracle Corporation in senior sales management and executive-level positions, including the Vice President of Worldwide Operations. Mr. Hoffman holds a B.S. degree in finance from Fairfield University.

James Markarian joined Informatica in November 1998 and has been our Chief Technology Officer and Executive Vice President since October 2010. Mr. Markarian has held other executive and management positions at Informatica, most recently as Senior Vice President and General Manager, Data Integration, from February 2009 to October 2010. Prior to that, Mr. Markarian served as Senior Vice President and Chief Technology Officer from August 2003 to January 2009. Prior to joining Informatica, Mr. Markarian spent 10 years at Oracle in various development and management positions, including architect for the Oracle Tools division, manager of Oracle's Object Tools development and manager of Oracle Forms development. He also served on Oracle's Architecture Review Board. Mr. Markarian holds a B.S. degree in computer science and economics and a M.S. degree in economics from Boston University.

Girish Pancha was an early employee of Informatica, serving in engineering management roles from November 1996 to October 1998. Mr. Pancha left in 1998 to co-found Zimba, a developer of mobile applications providing real-time access to corporate information via voice, wireless, and Web technologies. Upon Informatica’s acquisition of Zimba in August 2000, Mr. Pancha rejoined us as Vice President and General Manager of the Platform Business Unit. In August 2002, he became Senior Vice President of Products. In August 2003, Mr. Pancha was promoted to Executive Vice President. Prior to Informatica, Mr. Pancha spent eight years in various development and management positions at Oracle. Mr. Pancha holds a B.S. degree in electrical engineering from Stanford University and an M.S. degree in electrical engineering from the University of Pennsylvania.

Information with respect to our Directors, our Code of Business Conduct, and corporate governance matters is included under the caption “Proposal One — Election of Directors” in the Proxy Statement for the 2011 Annual Meeting of Stockholders, which proxy statement will be filed within 120 days of our fiscal year ended December 31, 2010 (the “2011 Proxy Statement”), and is incorporated herein by reference. Information regarding delinquent filers pursuant to Item 405 of Regulation S-K is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2011 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included under the captions, “Election of Directors — Director Compensation,” "Compensation Committee Interlocks and Insider Participation," and “Executive Officer Compensation” in the 2011 Proxy Statement and is incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is included under the captions “Security Ownership of Principal Stockholders and Management” and “Equity Compensation Plan Information” in the 2011 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is included under the captions “Transactions with Management” and “Election of Directors” in the 2011 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is included under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm” in the 2011 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS and FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements:

Reference is made to the Index to consolidated financial statements of Informatica Corporation under Item 8 of Part II hereof.

2. Financial Statement Schedule:

The following schedule is included herein:

Valuation and Qualifying Accounts (Schedule II)

All other schedules are omitted because they are not applicable or the amounts are immaterial or the required information is presented in the consolidated financial statements and notes thereto in Part II, Item 8 above.

Schedule II — Valuation and Qualifying Accounts

(In thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Acquisitions	Deductions	Balance at End of Period
Provision for Doubtful Accounts:					
Year ended December 31, 2010	$3,454	$(30)	$1,475	$(610)	$4,289
Year ended December 31, 2009	$2,558	$320	$908	$(332)	$3,454
Year ended December 31, 2008	$1,299	$1,268	$49	$(58)	$2,558

3. Exhibits

See Exhibit Index immediately following the signature page of this Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 25, 2011

INFORMATICA CORPORATION

By: /s/ SOHAIB ABBASI
Sohaib Abbasi
Chief Executive Officer, President, and
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ SOHAIB ABBASI Sohaib Abbasi	Chief Executive Officer, President, and Chairman of the Board of Directors (Principal Executive Officer)	February 25, 2011
/s/ EARL FRY Earl Fry	Chief Financial Officer, Chief Administration Officer and EVP, Global Customer Support (Principal Financial and Accounting Officer)	February 25, 2011
/s/ MARK BERTELSEN Mark Bertelsen	Director	February 25, 2011
/s/ MARK GARRETT Mark Garrett	Director	February 25, 2011
/s/ GERALD HELD Gerald Held	Director	February 25, 2011
/s/ DAVID PIDWELL David Pidwell	Director	February 25, 2011
/s/ CHARLES ROBEL Charles Robel	Director	February 25, 2011
/s/ BROOKE SEAWELL Brooke Seawell	Director	February 25, 2011
/s/ GEOFF SQUIRE Geoff Squire	Director	February 25, 2011
/s/ GODFREY SULLIVAN Godfrey Sullivan	Director	February 25, 2011

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INFORMATICA CORPORATION
EXHIBITS TO ANNUAL REPORT ON FORM 10-K

For the year ended December 31, 2010

Exhibit Number	Document
2.1	Agreement and Plan of Merger dated as of January 28, 2010 by and among Informatica Corporation, Sputnik Acquisition Corporation, Siperian, Inc., Investor Growth Capital as Stockholders' Representative solely for purposes of Section 6.5 and Articles VII, VIII and IX, and U.S. Bank National Association as Escrow Agent solely for purposes of Articles VII, VIII and IX (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 28, 2010, Commission File No. 0-25871).
3.1	Amended and Restated Certificate of Incorporation of Informatica Corporation (incorporated by reference to Exhibit 3.2 to Amendment No. 1 of the Company's Registration Statement on Form S-1 filed on April 8, 1999, Commission File No. 333-72677).
3.2	Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation to increase the aggregate number of shares of the Company's common stock authorized for issuance from 100,000,000 to 200,000,000 shares (incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2000, Commission File No. 0-25871).
3.3	Certificate of Designation of the Rights, Preferences and Privileges of Series A Participating Preferred Stock of Informatica Corporation (incorporated by reference to Exhibit 3.5 to the Company's Registration Statement on Form 8-A filed on November 6, 2001, Commission File No. 0-25871).
3.4	Amended and Restated Bylaws of Informatica Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 22, 2010, Commission File No. 0-25871).
4.1	Reference is made to Exhibits 3.1 through 3.4.
4.2	Preferred Stock Rights Agreement, dated as of October 17, 2001, between Informatica Corporation and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-A filed on November 6, 2001, Commission File No. 0-25871).
4.3	Indenture, dated March 13, 2006, between the Company and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on March 14, 2006, Commission File No. 0-25871).
4.4	Form of 3% Convertible Senior Notes due 2026 (incorporated by reference to Exhibit A to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on March 14, 2006, Commission File No. 0-25871).
10.1*	Form of Indemnification Agreement between the Company and each of its executive officers and directors.
10.2*	2009 Equity Incentive Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on May 15, 2009, Commission File No. 333-159295).
10.3*	Form of 2009 Equity Incentive Plan Stock Option Award Agreement and Notice of Stock Option Award.
10.4*	Form of 2009 Equity Incentive Plan RSU Award Agreement and Notice of RSU Award.
10.5*	Form of 2009 Equity Incentive Plan Stock Option Award Agreement and Notice of Stock Option Award for Non-Employee Directors.
10.6*	Form of 2009 Equity Incentive Plan RSU Award Agreement and Notice of RSU Award for Non-Employee Directors.
10.7*	Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 29, 2008, Commission File No. 0-25871).
10.8	Siperian, Inc. 2003 Equity Incentive Plan (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 filed on February 11, 2010, Commission File No. 333-164875).

10.9*	2000 Employee Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2001, Commission File No. 0-25871).
10.10*	1999 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K filed on February 28, 2008, Commission File No. 0-25871).
10.11*	1999 Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit 10.13 to Amendment No. 1 of the Company's Registration Statement on Form S-1 filed on April 8, 1999, Commission File No. 333-72677).
10.12*	Amendment to the 1999 Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2003, Commission File No. 0-25871).
10.13*	Form of Letter Agreement Regarding Equity Award Change of Control Vesting between the Company and its Non-Employee Directors.

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Exhibit Number	Document
10.14*	Employment Agreement dated July 19, 2004 between the Company and Sohaib Abbasi (incorporated by reference to Exhibit 10.26 of the Company's Quarterly Report on Form 10-Q filed on August 5, 2004, Commission File No. 0-25871).
10.15*	Amendment to Sohaib Abbasi Employment Agreement dated December 31, 2008 (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed on February 26, 2009, Commission File No. 0-25871).
10.16*	Second Amendment to Sohaib Abbasi Employment Agreement dated April 28, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 5, 2010, Commission File No. 0-25871).
10.17*	Form of Amended and Restated Executive Severance Agreement between the Company and each of its executive officers (other than the chief executive officer) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 5, 2010, Commission File No. 0-25871).
10.18*	Description of 2010 Bonus Plan (incorporated by reference to the Company's Current Report on Form 8-K filed on February 1, 2010, Commission File No. 0-25871).
10.19*	Description of 2011 Corporate Bonus Plan (incorporated by reference to the Company's Current Report on Form 8-K filed on January 31, 2011, Commission File No. 0-25871).
10.20	Lease Agreement regarding Building 1 Lease, dated as of February 22, 2000, by and between the Company and Pacific Shores Center LLC (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K filed on March 30, 2000, Commission File No. 0-25871).
10.21	Lease Agreement regarding Building 2 Lease, dated as of February 22, 2000, by and between the Company and Pacific Shores Center LLC (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K filed on March 30, 2000, Commission File No. 0-25871).
10.22	Lease Agreement dated as of October 7, 2004, by and between the Company and Seaport Plaza Associates, LLC (incorporated by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K filed on March 8, 2005, Commission File No. 0-25871).
10.23	Credit Agreement, dated as of September 29, 2010, by and among Informatica Corporation, each of the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as Administrative Agent, Comerica Bank, as Syndication Agent, Bank of America, N.A., HSBC Bank USA, National Association and Wells Fargo Bank, National Association, as Co-Documentation Agents, and J.P. Morgan Securities LLC and Comerica Bank, as Joint Bookrunners and Joint Lead Arrangers (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 5, 2010, Commission File No. 0-25871).
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 **	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS ***	XBRL Instance.
101.SCH***	XBRL Taxonomy Extension Schema.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB***	XBRL Taxonomy Extension Label Linkbase.
101.PRE ***	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase.

* Indicates management contract or compensatory plan or arrangement.

** Furnished, not filed.

*** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.