INFORMATICA CORP
Form 10-Q
August 08, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
R Yes £ No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes R No £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ Yes R No
As of July 31, 2012, there were approximately 108,530,000 shares of the registrant's Common Stock outstanding.

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PART I: FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
INFORMATICA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$253,322	$316,835
Short-term investments	311,957	285,579
Accounts receivable, net of allowances of $3,912 and $4,001, respectively	140,510	176,066
Deferred tax assets	21,137	21,591
Prepaid expenses and other current assets	36,794	23,206
Total current assets	763,720	823,277
Property and equipment, net	145,225	16,025
Goodwill	431,528	432,269
Other intangible assets, net	50,512	64,789
Long-term deferred tax assets	24,384	23,037
Other assets	5,294	21,351
Total assets	$1,420,663	$1,380,748
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$7,623	$9,459
Accrued liabilities	48,908	58,947
Accrued compensation and related expenses	46,478	58,042
Income taxes payable	—	1,178
Accrued facilities restructuring charges	—	17,751
Deferred revenues	226,797	208,039
Total current liabilities	329,806	353,416
Accrued facilities restructuring charges, less current portion	—	5,543
Long-term deferred revenues	9,880	6,573
Long-term income taxes payable	19,304	16,709
Other liabilities	3,152	6,304
Total liabilities	362,142	388,545
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized; 108,129 shares and 106,946 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	108	107
Additional paid-in capital	773,874	751,350
Accumulated other comprehensive loss	(15,624)	(12,802)
Retained earnings	300,163	253,548
Total stockholders' equity	1,058,521	992,203
Total liabilities and stockholders' equity	$1,420,663	$1,380,748

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
License	$70,936	$86,343	$151,044	$157,844
Service	119,556	106,384	235,468	202,915
Total revenues	190,492	192,727	386,512	360,759
Cost of revenues:				
License	1,183	1,217	2,285	2,658
Service	31,653	29,365	62,109	56,679
Amortization of acquired technology	5,361	4,885	10,992	9,178
Total cost of revenues	38,197	35,467	75,386	68,515
Gross profit	152,295	157,260	311,126	292,244
Operating expenses:				
Research and development	34,791	32,929	69,563	63,516
Sales and marketing	72,667	70,943	140,376	130,525
General and administrative	14,992	13,953	30,677	25,991
Amortization of intangible assets	1,576	1,992	3,228	4,073
Facilities restructuring and facility lease termination costs, net	—	476	710	986
Acquisitions and other charges (benefit)	67	780	353	(922)
Total operating expenses	124,093	121,073	244,907	224,169
Income from operations	28,202	36,187	66,219	68,075
Interest income	1,180	1,094	2,355	2,189
Interest expense	(129)	(121)	(253)	(1,901)
Other expense, net	(371)	(548)	(724)	(1,480)
Income before income taxes	28,882	36,612	67,597	66,883
Income tax provision	8,796	10,402	20,982	18,764
Net income	$20,086	$26,210	$46,615	$48,119
Basic net income per common share	$0.19	$0.25	$0.43	$0.47
Diluted net income per common share	$0.18	$0.23	$0.41	$0.43
Shares used in computing basic net income per common share	108,245	106,014	107,889	101,458
Shares used in computing diluted net income per common share	113,027	113,148	112,888	112,755

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$20,086	$26,210	$46,615	$48,119
Other comprehensive income:				
Change in foreign currency translation adjustment, net of tax benefit (expense) of $211, $(65), $73 and $(240)	(7,512)	2,589	(3,379)	8,844
Available-for-sale investments:				
Change in net unrealized gain (loss)	(103)	399	335	112
Less: reclassification adjustment for net gain included in net income	(2)	(24)	(2)	(24)
Net change, net of tax benefit (expense) of $(31), $(230), $(204) and $(54)	(105)	375	333	88
Cash flow hedges:				
Change in unrealized loss	(1,087)	(431)	(555)	(1,458)
Less: reclassification adjustment for loss included in net income	576	631	779	956
Net change, net of tax benefit (expense) of $487, $(122), $(137) and $307	(511)	200	224	(502)
Total other comprehensive income net of tax effect	(8,128)	3,164	(2,822)	8,430
Total comprehensive income, net of tax effect	$11,958	$29,374	$43,793	$56,549

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
Operating activities:		
Net income	$46,615	$48,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,458	2,799
Recovery of doubtful accounts	(78)	(499)
Gain on sale of investment in equity interest	(125)	—
Share-based compensation	20,627	15,667
Deferred income taxes	(930)	(1,197)
Tax benefits from share-based compensation	10,325	15,421
Excess tax benefits from share-based compensation	(10,037)	(15,172)
Amortization of intangible assets and acquired technology	14,220	13,251
Settlement of lease obligations	585	—
Non-cash facilities restructuring charges	125	986
Other non-cash items	353	(1,702)
Changes in operating assets and liabilities:		
Accounts receivable	35,634	22,905
Prepaid expenses and other assets	11,888	(8,975)
Accounts payable and accrued liabilities	(26,097)	(8,675)
Income taxes payable	(9,074)	65
Accrued facilities restructuring charges	(23,977)	(7,014)
Deferred revenues	22,065	16,545
Net cash provided by operating activities	97,577	92,524
Investing activities:		
Purchases of property and equipment	(134,847)	(2,377)
Purchases of investments	(121,818)	(191,895)
Purchase of investment in equity interest	(103)	(164)
Sale of investment in equity interest	125	—
Maturities of investments	26,046	80,890
Sales of investments	70,241	82,057
Business acquisitions, net of cash acquired	—	(24,085)
Net cash used in investing activities	(160,356)	(55,574)
Financing activities:		
Net proceeds from issuance of common stock	27,177	30,519
Repurchases and retirement of common stock	(29,652)	(19,642)
Withholding taxes related to restricted stock units net share settlement	(5,950)	(5,256)
Excess tax benefits from share-based compensation	10,037	15,172
Net cash provided by financing activities	1,612	20,793
Effect of foreign exchange rate changes on cash and cash equivalents	(2,346)	6,398
Net increase (decrease) in cash and cash equivalents	(63,513)	64,141
Cash and cash equivalents at beginning of period	316,835	208,899
Cash and cash equivalents at end of period	$253,322	$273,040

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies
Basis of Presentation
The accompanying condensed consolidated financial statements of Informatica Corporation (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial statements include all normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. All of the amounts included in this Quarterly Report on Form 10-Q related to the condensed consolidated financial statements and notes thereto as of and for the three and six months ended June 30, 2012 and 2011 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2012, or any other future period.
The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based on information available at the time that these estimates, judgments, and assumptions are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, Informatica's financial statements would be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also instances that management's judgment in selecting an available alternative would not produce a materially different result.
These unaudited, condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K filed with the SEC. The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements of the Company. The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
As discussed below, on January 1, 2012, the Company adopted Accounting Standards Update No. 2011-04, Financial Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which clarifies the application of certain existing fair value measurement guidance and expands the disclosure for fair value measurements that are estimated using significant unobservable (Level 3) inputs.
The Company also adopted Accounting Standards Update No. 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05"). In June 2011, the FASB issued ASU 2011-05 which requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued an amendment to an existing accounting standard which defers the requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. The Company adopted both standards in the first quarter of 2012. There have been no other changes in our critical accounting policies since the end of fiscal year 2011.

Fair Value Measurement of Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of June 30, 2012 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	$31,874	$31,874	$—	$—
Time deposits (ii)	31,871	31,871	—	—
Marketable debt securities (ii)	280,086	—	280,086	—
Total money market funds, time deposits, and marketable debt securities	343,831	63,745	280,086	—
Foreign currency derivatives (iii)	—	—	—	—
Total assets	$343,831	$63,745	$280,086	$—
Liabilities:				
Foreign currency derivatives (iv)	$1,792	$—	$1,792	$—
Acquisition-related contingent consideration (v)	9,078	—	—	9,078
Total liabilities	$10,870	$—	$1,792	$9,078

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

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

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

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

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

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Money Market Funds, Time Deposits, and Marketable Securities

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

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

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

To determine the fair value of its corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds, the Company uses a “consensus price” or a weighted average price for each security. Market prices for these securities are received from a variety of industry standard data providers (e.g., Bloomberg), security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily market value. Our fair value processes include controls that are designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by another pricing service, validation of pricing sources and models, and independent recalculation of prices where appropriate.

Foreign Currency Derivatives and Hedging Instruments

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

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

There were no transfers between Level 1 and Level 2 categories during the three and six months ended June 30, 2011 and 2012.

See Note 6. Accumulated Other Comprehensive Income, Note 7. Derivative Financial Instruments, and Note 13. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

Acquisition-related Contingent Consideration

We estimated the fair value of the acquisition-related contingent consideration using a probability-weighted discounted cash flow model. This fair value measure was based on significant inputs not observed in the market and thus represented a Level 3 instrument. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

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

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

	June 30, 2012
Beginning balance as of December 31, 2011	$12,872
Change in fair value of contingent consideration	326
Payment of contingent consideration	(4,120)
Ending balance as of June 30, 2012	$9,078

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

Note 2. Cash, Cash Equivalents, and Short-Term Investments
The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three and six months ended June 30, 2012, and three months ended June 30, 2011 were negligible. Realized gain recognized for the six months ended June 30, 2011 was approximately $0.3 million. The cost of securities sold was determined based on the specific identification method.
The following table summarizes the Company’s cash, cash equivalents, and short-term investments as of June 30, 2012 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$221,448	$—	$—	$221,448
Cash equivalents:				
Money market funds	31,874	—	—	31,874
Total cash equivalents	31,874	—	—	31,874
Total cash and cash equivalents	253,322	—	—	253,322
Short-term investments:				
Certificates of deposit	2,740	4	—	2,744
Commercial paper	2,999	—	—	2,999
Corporate notes and bonds	150,252	283	(96)	150,439
Federal agency notes and bonds	101,707	127	(23)	101,811
Time deposits	31,871	—	—	31,871
U.S. government notes and bonds	7,151	17	—	7,168
Municipal notes and bonds	14,902	24	(1)	14,925
Total short-term investments	311,622	455	(120)	311,957
Total cash, cash equivalents, and short-term investments (i)	$564,944	$455	$(120)	$565,279

(i) Total estimated fair value above included $343.8 million comprised of cash equivalents and short-term investments at June 30, 2012.

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

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

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

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

	Less Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$53,160	$(93)
Federal agency notes and bonds	28,654	(23)
Municipal notes and bonds	3,118	(1)
Total	$84,932	$(117)

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category that have been in a continuous unrealized loss position for greater than twelve months, at June 30, 2012 (in thousands):

	Greater Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$510	$(3)

Total	$510	$(3)

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

The changes in value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature.
The following table summarizes the cost and estimated fair value of the Company’s short-term investments by contractual maturity at June 30, 2012 (in thousands):

	Cost	Fair Value
Due within one year	$212,030	$212,212
Due in one year to two years	78,628	78,801
Due after two years	20,964	20,944
Total	$311,622	$311,957

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

	Estimated Useful Lives	June 30, 2012	December 31, 2011
Land	N/A	$20,637	$—
Buildings	25 years	105,725	—
Site improvements	15 years	1,162	—
Total land and buildings		127,524	—
Computer and equipment	1-5 years	49,272	51,907
Furniture and fixtures	3-5 years	6,540	5,391
Leasehold improvements	1-9 years	23,527	22,039
Capital work-in-progress		2,178	471
Total property and equipment		209,041	79,808
Less: Accumulated depreciation and amortization		(63,816)	(63,783)
Total property and equipment, net		$145,225	$16,025

On February 15, 2012, the Company purchased the property associated with its former corporate headquarters at 2000 and 2100 Seaport Boulevard in Redwood City, California. The property consists of two office buildings totaling an aggregate of 290,305 square feet and the associated 11.6 acres of land. The transaction has been accounted for as a purchase of an asset that was previously subject to an operating lease during the lease term in accordance with ASC 840 Leases. The purchase of the property totaled approximately $148.6 million in cash, which reflects a purchase price of $153.2 million less a rent credit of $4.6 million. The Company recorded a charge of approximately $21.2 million representing the cost to terminate the operating lease in the Condensed Consolidated Statement of Income during the three months ended March 31, 2012 and six months ended June 30, 2012. The net purchase price of the land and buildings was $127.5 million, which represents the fair value at date of purchase. The net purchase price was allocated as $105.7 million to buildings, $20.6 million to land, and $1.2 million to site improvements. The building and site improvements are depreciated on a straight-line basis over the estimated useful life of 25 years and 15 years, respectively. See Note 10. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements for a further discussion.

Note 4. Intangible Assets and Goodwill

The carrying amounts of the intangible assets other than goodwill as of June 30, 2012 and December 31, 2011 are as follows (in thousands, except years):

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
	December 31, 2011	Additions and Adjustments	June 30, 2012	December 31, 2011	Expense	June 30, 2012	December 31, 2011	June 30, 2012	Average Useful Life (Years)
Developed and core technology	$102,492	$430	$102,922	$(54,742)	$(10,992)	$(65,734)	$47,750	$37,188	6
Customer relationships	34,385	(6)	34,379	(25,871)	(2,039)	(27,910)	8,514	6,469	6
Vendor relationships	7,908	—	7,908	(4,207)	(766)	(4,973)	3,701	2,935	5
Other:									
Trade names	2,494	—	2,494	(1,645)	(179)	(1,824)	849	670	5
Covenants not to compete	2,000	—	2,000	(2,000)	—	(2,000)	—	—	5
Patents	4,442	—	4,442	(948)	(244)	(1,192)	3,494	3,250	11
Total intangible assets subject to amortization	153,721	424	154,145	(89,413)	(14,220)	(103,633)	64,308	50,512	
In-process research and development	481	(481)	—	—	—	—	481	—	N.A.
Total intangible assets, net	$154,202	$(57)	$154,145	$(89,413)	$(14,220)	$(103,633)	$64,789	$50,512	

Total amortization expense related to intangible assets was $6.9 million each for both of the three-month periods ended June 30, 2012 and 2011, and $14.2 million and $13.3 million for the six months ended June 30, 2012 and 2011, respectively. Certain intangible assets were recorded in foreign currencies; and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments.

As of June 30, 2012, the amortization expense related to identifiable intangible assets in future periods is expected to be as follows (in thousands):

	Acquired Technology	Other Intangible Assets	Total Intangible Assets
Remaining 2012	$10,202	$2,818	$13,020
2013	16,676	5,290	21,966
2014	6,445	2,570	9,015
2015	2,401	847	3,248

2016	1,284	1,510	2,794
Thereafter	180	289	469
Total intangible assets subject to amortization	$37,188	$13,324	$50,512

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

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	June 30, 2012
Beginning balance as of December 31, 2011	$432,269
Subsequent goodwill adjustments	(741)
Ending balance as of June 30, 2012	$431,528

Subsequent goodwill adjustments of $0.7 million for the six months ended June 30, 2012 consist primarily of foreign currency translation adjustments. The goodwill is partially deductible for tax purposes.

Note 5. Borrowings

Convertible Senior Notes

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

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

Credit Agreement

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

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

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

Note 6. Accumulated Other Comprehensive Income

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

	June 30, 2012	December 31, 2011
Net unrealized gain (loss) on available-for-sale investments	$208	$(125)
Cumulative translation adjustments	(14,754)	(11,375)
Derivative loss	(1,078)	(1,302)
Accumulated other comprehensive loss, net of taxes	$(15,624)	$(12,802)

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

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

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

Note 7. Derivative Financial Instruments

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

Cash Flow Hedges

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

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

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

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The notional amount of these foreign exchange forward contracts was $14.8 million and $39.3 million as of June 30, 2012 and December 31, 2011, respectively.

Balance Sheet Hedges

Beginning in the second quarter of 2011, the Company also entered into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of its subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense) and offset the foreign currency gain or loss on the underlying monetary assets or liabilities. The notional amounts of foreign currency contracts open at period end in US dollar equivalents were $2.6 million to buy at June 30, 2012 and $5.0 million to sell at December 31, 2011.

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

	June 30, 2012		December 31, 2011	
	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)
Derivatives designated as hedging instruments	$—	$1,553	$—	$2,480
Derivatives not designated as hedging instruments	—	239	702	16
Total fair value of derivative instruments	$—	$1,792	$702	$2,496

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

As of June 30, 2012, a derivative loss of $1.1 million was included in accumulated other comprehensive income, net of applicable taxes. The Company expects to reflect this amount in its condensed consolidated statements of income during the next twelve months.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Amount of loss recognized in other comprehensive income (effective portion)	$(1,574)	$(309)	$(418)	$(1,765)
Amount of loss reclassified from accumulated other comprehensive income to operating expenses (effective portion)	$(576)	$(631)	$(779)	$(956)
Amount of gain recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses	$345	$215	$805	$463

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gain (loss) recognized in interest and other income (expense), net	$(570)	$615	$(743)	$800

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

Note 8. Stock Repurchase Program

The Company's Board of Directors has approved a stock repurchase program for the Company to repurchase its common stock. The primary purpose of the program is to enhance shareholder value, including partially offsetting the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of the purchases are based on several factors, including the price of the Company's common stock, the Company's liquidity and working capital needs, general business and market conditions, and other investment opportunities. These purchases can be made from time to time in the open market and are funded from the Company’s available working capital. This repurchase program does not have an expiration date. Repurchased shares are retired and reclassified as authorized and unissued shares of common stock. The Company may continue to repurchase shares from time to time, as determined by management under programs approved by the Board of Directors.

During the three months ended June 30, 2012, the Company repurchased approximately 688,000 shares of its common stock at a cost of $29.7 million. There were no repurchases of the common stock during the three months ended March 31, 2012. During the three and six months ended June 30, 2011, the Company repurchased 300,000 shares of its common stock at a cost of $16.5 million and approximately 365,000 shares of its common stock at a cost of $19.6 million, respectively. There were no repurchases of the Notes in the first quarter of 2011 before the Notes were redeemed on March 18, 2011. See Note 5. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

As of June 30, 2012, $47.4 million remained available for repurchase under this program. On July 3, 2012, the Company's Board of Directors approved a $100.0 million increase to the Company's stock repurchase program.

Note 9. Share-Based Compensation

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Option grants:				
Expected volatility	39 - 43%	35 - 36%	39 - 43%	35 - 36%
Weighted-average volatility	40 %	36 %	42 %	36 %
Expected dividends	—	—	—	—
Expected term of options (in years)	3.3	3.8	3.3	3.8
Risk-free interest rate	0.6 %	1.4 %	0.5 %	1.5 %
ESPP:*				
Expected volatility	—	—	43 %	35 %
Weighted-average volatility	—	—	43 %	35 %
Expected dividends	—	—	—	—
Expected term of ESPP (in years)	—	—	0.5	0.5
Risk-free interest rate	—	—	0.1 %	0.2 %

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Cost of service revenues	$1,023	$861	$2,110	$1,725
Research and development	3,478	2,654	6,963	5,053
Sales and marketing	3,141	2,478	6,479	4,887
General and administrative	2,367	2,162	5,075	4,002
Total share-based compensation	10,009	8,155	20,627	15,667
Tax benefit of share-based compensation	(2,533)	(2,080)	(5,251)	(3,950)
Total share-based compensation, net of tax benefit	$7,476	$6,075	$15,376	$11,717

Note 10. Facilities Restructuring Charges

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2004 Restructuring Plan

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

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

2001 Restructuring Plan

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

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

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

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

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

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

Note 11. Income Taxes

The Company's effective tax rates were 30% and 28% for the three months ended June 30, 2012 and 2011, respectively, and 31% and 28% for the six months ended June 30, 2012 and 2011, respectively. The effective tax rate for the three and six months ended June 30, 2012 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the benefit of foreign tax credits partially offset by compensation expense related to non-deductible share-based compensation, state income taxes, and the accrual of reserves related to uncertain tax positions. The effective tax rates for the three and six months ended June 30, 2011 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the recognition of current year research and development credits, and the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code partially offset by compensation expense related to non-deductible share-based compensation, state income taxes, the revaluation of deferred taxes previously recorded in acquisition accounting, and the accrual of reserves related to uncertain tax positions. With the exception of our subsidiaries in the Israel and Canada, net undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested, and accordingly, no provision for U.S. income taxes has been provided thereon.

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in the quarter ended June 30, 2012, the Company considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies. As a result of this analysis for the quarter ended June 30, 2012, it was considered more likely than not that the Company's non-share-based payments related deferred tax assets would be realized with the exception of the deferred tax asset related to the California research and development credit generated in 2012. Even though this attribute has an indefinite life, it is unlikely that the Company will utilize any of this currently generated credit in the foreseeable future. The remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a “with” and “without” basis and recorded on the balance sheet with a corresponding valuation allowance prior to the Company’s adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in stockholders’ equity when they are utilized on an income tax return to reduce the Company’s taxes payable, and as such, they will not impact the Company’s effective tax rate.

The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by $17.1 million and $14.9 million as of June 30, 2012 and 2011, respectively. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of June 30, 2012 and 2011 were approximately $2.9 million and $2.0 million, respectively. As of June 30, 2012, the gross uncertain tax position was approximately $18.2 million.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company has been informed by certain state and foreign taxing authorities that it was selected for examination. Additionally, the IRS is currently auditing the final pre-acquisition federal tax return of one of its wholly owned subsidiaries. Most federal, state, and foreign jurisdictions have anywhere from three to six open tax years at any point in time. The field work for certain federal, state, and foreign audits has commenced and is at various stages of completion as of June 30, 2012.

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

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Note 12. Net Income per Common Share
The following table sets forth the calculation of basic and diluted net income per share for the three and six months ended June 30, 2012 and 2011 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$20,086	$26,210	$46,615	$48,119
Effect of convertible senior notes, net of related tax effects	—	—	—	811
Net income adjusted	$20,086	$26,210	$46,615	$48,930
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	108,245	106,014	107,889	101,458
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	406	573	439	589
Dilutive effect of employee stock options	4,376	6,561	4,560	6,587
Dilutive effect of convertible senior notes	—	—	—	4,121
Shares used in computing diluted net income per common share	113,027	113,148	112,888	112,755
Basic net income per common share	$0.19	$0.25	$0.43	$0.47
Diluted net income per common share	$0.18	$0.23	$0.41	$0.43
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	3,004	1,157	2,723	955

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

Note 13. Commitments and Contingencies

Lease Obligations

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement. The initial lease term was from December 15, 2004 to December 31, 2007 with a three-year option to renew to December 31, 2010 at fair market value. In May 2007, the Company exercised its renewal option to extend the office lease term to December 31, 2010. In May 2009, the Company executed the lease amendment to further extend the lease term for another three years to December 31, 2013. The future minimum contractual lease payments are $1.8 million for the remainder of 2012 and $3.6 million for the year ending December 31, 2013.

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

In February 2012, the Company purchased the property associated with its former corporate headquarters in Redwood City, California for approximately $148.6 million in cash, which reflects a purchase price of $153.2 million less a rent credit of $4.6 million. As a result of the transaction, the Company no longer has any further commitments relating to the original lease agreements. The Company will continue to receive payments from the tenants of approximately $7.1 million as the owner of the buildings, which include rental income of $3.5 million and reimbursement of certain property costs such as common area maintenance, insurance, and property taxes, through the remainder of their respective lease terms of $3.6 million. The estimates of lease income may vary significantly depending, in part, on factors that may be beyond the Company's control, such as the global economic downturn, time periods required to locate and contract suitable leases, and market rates at the time of leases. Currently, the Company has leased its former corporate headquarters through July 2013. Future adjustments to the expected lease income could result from any default by a lessor, which could impact the time period that the buildings will be vacant, expected lease rates, and expected lease terms.

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

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

	Operating Leases
Remaining 2012	$6,189
2013	11,818
2014	6,879
2015	6,074
2016	3,312
Thereafter	4,281
Total future minimum operating lease payments	$38,553

Warranties

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

Indemnification

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

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees’ development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material claims against the Company are outstanding as of June 30, 2012. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

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

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

Derivative Financial Instruments

The Company uses derivative instruments to manage its exposure to fluctuations in certain foreign currency exchange rates which exist as part of ongoing business operations. See Note 1. Summary of Significant Accounting Policies, Note 6. Accumulated Other Comprehensive Income, and Note 7. Derivative Financial Instruments of Notes to Condensed Consolidated Financial Statements for a further discussion.

Litigation

General. The Company is a party to various legal proceedings and claims arising from the normal course of its business activities, including proceedings and claims related to patents and other intellectual property related matters. The Company reviews the status of each matter and records a provision for a liability when it is considered both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed quarterly and adjusted as ad