

INFORMATICA CORP  
Form 10-K  
February 21, 2014  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

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☐ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the year ended December 31, 2013

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-25871

INFORMATICA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

77-0333710

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

2100 Seaport Boulevard

Redwood City, California 94063

(Address of principal executive offices and zip code)

(650) 385-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.001  
per share

Name of exchange on which  
registered

The NASDAQ Stock Market LLC  
(NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act of 1934 (the "Exchange Act"). Yes ☐ No ☒

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.

Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 28, 2013 was approximately \$3,754,238,000 (based on the last reported sale price on June 28, 2013 for the Registrant's common stock, as reported on the NASDAQ Global Select Market).

As of January 31, 2014, there were approximately 109,212,000 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. The Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2013.

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PART I

ITEM 1. BUSINESS

Overview

Informatica Corporation is the leading independent provider of data integration software and services. Organizations around the world rely on Informatica to realize their information potential and drive top business imperatives. We believe data is one of an organization's most strategic assets, and our vision is to empower the data-centric world. We address the growing challenge organizations face with data, including data that is fragmented across and beyond the enterprise and data of varying quality. We have developed, and continue to innovate, solutions for a wide range of enterprises, regardless of which technology platform, application, or database a customer chooses and whether the data resides on-premise or in the cloud. Our solutions enable a wide variety of complex, enterprise-wide data integration initiatives through technologies including data integration, data quality, information lifecycle management, data exchange, and master data management. We have built our platform and products on the Informatica Vibe architecture. Vibe is an embeddable virtual data machine that allows companies to access, aggregate, and manage data regardless of data type, source, volume, compute platform or user. Vibe enables companies to map data once, and deploy anywhere, providing our customers with the agility to avoid costly and time-consuming hand coding, recoding or redevelopment as data technologies evolve.

We are focused on growing across all data initiatives, advancing our technology leadership, and expanding our geographic presence and capabilities across all major regions. We believe we can expand our business by leveraging our success, knowledge, and the strength of our proven products that have helped our customers deploy thousands of large data management implementations.

We are organized and operate in a single segment. See Note 17. Significant Customer Information and Segment Information of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report, which is incorporated herein by reference.

Products

We provide data integration software and services. Our products enable organizations to gain a competitive advantage in the global information economy by empowering them to access, integrate, and trust their information assets. These products comprise a comprehensive, unified, open, and economical data integration platform that enables business and IT executives, architects, and managers to provide trusted, relevant data to the business - when and where it is needed. The Informatica Platform, powered by Vibe virtual data machine, handles most types of data integration and data management projects required to support business goals.

The following products are included in the Informatica Platform:

**Data Integration.** Our enterprise data integration family of products includes Informatica PowerCenter, Informatica PowerExchange and Informatica Data Integration Hub. We also offer Informatica PowerCenter Express, an entry-level data integration and profiling edition for departments or small to mid-market business, and Informatica Cloud Data Integration solutions.

Informatica PowerCenter integrates data from virtually any business system, in almost any format, and quickly delivers that data throughout the enterprise to improve operational efficiency. Highly scalable and high-performance, PowerCenter serves as the foundation for all data integration projects. PowerCenter is available in a variety of editions. Additionally, many options are available to extend Informatica PowerCenter's core data integration capabilities. Informatica PowerExchange is a family of data access products that enable IT organizations to access mission-critical data and deliver it throughout the enterprise without having to develop custom data access programs. Informatica Data Integration Hub simplifies application-to-application data integration with a publish-and-subscribe model that allows IT organizations to publish once and support one-to-many consuming applications.

Informatica Cloud Data Integration provides easy to use cloud data integration applications and integration platform as a service ("iPaaS") that allow organizations to combine the enterprise-class benefits of the Informatica Platform with the cost and usability advantages of the latest cloud computing applications platforms. We offer Cloud integration

applications, which are purpose-built, multi-tenant cloud services that allow users to integrate data across cloud-based applications, on-premise systems, databases, files and social data sources, as well as Cloud Connectors to connect to a wide variety of on-premise and cloud-based applications, including enterprise applications, databases, flat files, file feeds, and social networking sites.

Data Quality. Informatica Data Quality products deliver pervasive data quality to stakeholders, projects, and data domains, on premise or in the cloud, using a comprehensive and unified platform. Our Data Quality family of products includes a variety of Data Quality editions and AddressDoctor.

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**Information Lifecycle Management.** Informatica Application Information Lifecycle Management ("ILM") products are designed to help IT organizations to cost-effectively manage every phase of the data lifecycle, by handling data growth, safely retiring legacy systems and applications, optimizing test data management, and protecting sensitive data. Informatica ILM products include Data Archive, Data Subset, Persistent Data Masking, Dynamic Data Masking and ILM Nearline.

**Data Exchange.** Informatica B2B Data Exchange offers a comprehensive technology infrastructure for multi-enterprise data integration, partner management, and business event monitoring, allowing organizations to aggregate, exchange and share data. Our data exchange products also include Data Transformation for converting structured and unstructured data to and from more broadly consumable data formats to support business-to-business and multi-enterprise transactions, as well as HParser, a data transformation (data handler) environment optimized for Hadoop.

**Master Data Management.** Informatica Master Data Management ("MDM") products deliver consolidated and reliable business-critical data - also known as master data - to improve business operations. Informatica MDM identifies all business-critical master data as well as the relationships between master data that is stored in different formats and multiple systems across the enterprise. Our MDM family of products includes MDM, Product Information Management ("PIM"), Identity Resolution and Cloud MDM.

**Other Solutions.** We also provide a variety of other data integration software solutions, including Informatica Complex Event Processing, Informatica Data Replication, Informatica Data Services, Informatica Procurement, Informatica Ultra Messaging and Informatica Vibe Data Stream.

In addition, Informatica Communities, created in 2001, has grown to over 100,000 members in more than 190 countries using our products as a platform on which to build or customize a specific data integration solution. These developers extend Informatica's presence and profile in the broad data integration market and provide a network of knowledge that can be shared to amplify our brand and its influence. Also, the Informatica Marketplace, created in 2010, has grown to approximately 150,000 active data integration users and developers. The Informatica Marketplace provides vendors, partners and individual developers with a central location to buy and sell assets and solutions called blocks. A block can be developed for on-premise or cloud use and may include data models, mappings, mapplets, tools, utilities, packaged services, methodologies, white papers, connectors and other useful resources. Users are able to browse blocks for industry specific solutions or platform use cases. Blocks contributed to the Informatica Marketplace are evaluated for quality and value by us before becoming available.

### Services

We offer a comprehensive set of services, including product-related customer support, consulting services, and education services.

We provide technical customer support for Informatica software deployments through support centers in the United States, the United Kingdom, and India, as well as staff in Brazil, Canada, China, Germany, Ireland, Japan, the Netherlands, Spain, and South Korea for both regional installations as well as geographically dispersed projects. Informatica's Global Customer Support offers a well-engineered and comprehensive set of support programs tailored to fit customer needs. Customers and partners can access our 24x7 technical support over the phone using toll-free lines, via email, and online through Informatica's Web portal "<http://mysupport.informatica.com>."

Our consulting services are focused on helping customers to become agile data-driven enterprises, both tactically and strategically. Our services include initial configuration of the Informatica Platform, knowledge transfer to customers and partners, designing and implementing custom data integration solutions, project audit, and performance tuning, and helping customers implement enterprise-wide integration strategies such as integration competency centers or leadership lean integration practices. Our consulting strategy is to provide specialized expertise on our products to enable our customers and partners to successfully implement and sustain business solutions using our integration platform. Our Professional Services consultants use a services methodology called Informatica Velocity to guide the successful implementation of our software. Our services methodology reflects the best practices that Informatica has developed and refined through hundreds of successful projects. We have professional services staff in 19 countries.

Informatica University offers a comprehensive role-based curriculum of product and solution oriented education offerings to enable our worldwide customers and strategic partners to build proficiency in using our products. Informatica University delivers education services in more than 45 countries with over 60 course offerings through instructor led, virtual academy, and onDemand delivery options to make training easy, flexible and cost effective. We have established the Informatica Certified Professional Program for PowerCenter, Informatica Data Quality, Informatica MDM and Informatica ILM, which has created a database of expert professionals with verifiable skills in the design and administration of Informatica-based systems.

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### Customers

Our customers represent a wide range of corporations and governmental and educational institutions. Our targeted markets include automotive, energy and utilities, entertainment/media, financial services, healthcare, high technology, insurance, manufacturing, public sector, retail, services, telecommunications, and travel/transportation. Financial services remains our largest vertical industry sector. No single customer accounted for 10% or more of our total revenues in 2013, 2012, or 2011.

### Sales, Marketing, and Distribution

We market and sell software and services through both our direct sales force and indirect channel partners. As of December 31, 2013, we employed 1,060 people in our sales and marketing organization worldwide. Over the past several years, we have expanded our presence and capabilities in a number of geographic regions. We currently have a direct sales presence in over 20 countries and an indirect presence, through distributors and partners, in over 80 countries. We market and sell our software and services through our sales operations in North and Latin America (including Brazil, Canada, Mexico, and the United States), Europe, Middle East and Africa (including France, Denmark, Germany, Ireland, Israel, Italy, the Netherlands, Russia, South Africa, Spain, Sweden, Switzerland, United Arab Emirates, and the United Kingdom), and Asia-Pacific (including Australia, China, Hong Kong, India, Japan, South Korea, Singapore, and Taiwan).

Sales and marketing programs are focused on creating awareness of Informatica and its products and services, generating interest among new customers as well as interest in new products within existing customers, documenting compelling customer references, and creating up-sell/cross-sell opportunities for our products. These programs are targeted at chief information officers and other key executives of specific functional areas such as marketing, sales, service, finance, human resources, manufacturing, distribution, and procurement as well as enterprise architects and other key IT professionals focused on data integration. Our marketing personnel engage in a variety of activities, including positioning our software products and services, conducting public relations programs, establishing and maintaining relationships with industry analysts, producing online campaigns, web content, and collateral that describes our products, services, and solutions, and generating qualified sales leads. Additionally, we utilize sales specialists and domain experts to facilitate our sales and marketing efforts and expand our customer opportunities. Our global sales process consists of several phases: lead generation, opportunity qualification, needs assessment, product demonstration, proposal generation, and contract negotiation. Although the typical sales cycle requires three to six months, some sales cycles have lasted substantially longer. In a number of instances, our relationships with systems integrators and other strategic partners have reduced sales cycles by generating qualified sales leads, making initial customer contacts, assessing needs prior to our introduction to the customers, and endorsing our products to the customers before their product selection. Also, partners have assisted in the creation of presentations and demonstrations, which we believe enhances our overall value proposition and competitive position.

In addition to our direct sales efforts, we distribute our products through systems integrators, resellers, distributors, and OEM partners in the United States and internationally. Systems integrators typically have expertise in vertical or functional markets. In some cases, they resell our products, bundling them with their broader service offerings. In other cases, they refer sales opportunities to our direct sales force for our products. Distributors sublicense our products and provide service and support within their territories. OEMs embed portions of our technology in their product offerings.

### Partners

We maintain relationships with a variety of strategic partners to jointly develop, market, sell, recommend, and/or implement our solutions. We also have relationships with distributors and channel partners who resell and sublicense in various regions and industries, including the United States, Canada, Europe, Middle East, Africa, Asia-Pacific, and Latin America, and provide services and support within their territories.

Informatica's partners include industry leaders in enterprise software, computer hardware, and systems integration. We offer a comprehensive strategic partner program for major companies in these areas so that they can provide sales and marketing leverage, have access to required technology, and can furnish complementary products and services to our



joint customers. As of December 31, 2013, more than 500 companies helped market, resell, implement, or offer Informatica's solution around the world.

#### Research and Development

As of December 31, 2013, we employed 1,068 people in our research and development organization and have 18 development centers in 10 countries. This team is responsible for the design, development, release and maintenance of our products. The group is organized into four disciplines: development, quality assurance, documentation, and product management. Members from each discipline, along with product marketing, form focus teams that work closely with sales, marketing, services, customers, and prospects to better understand market needs and user requirements. These teams utilize a well-defined agile software development

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methodology that we believe enables us to deliver products that satisfy real business needs for the global market while also meeting commercial quality expectations and minimizing schedule risk.

When appropriate, we also use third parties to expand the capacity and technical expertise of our internal research and development team. On occasion, we have licensed third-party technology. We believe this approach shortens time to market without compromising competitive position or product quality, and we plan to continue drawing on third-party resources as needed in the future.

Approximately 28% of Informatica's research and development team is based in the United States and the remainder is based in Australia, Canada, Germany, India, Ireland, Israel, the Netherlands, Russia, and the United Kingdom. Our international development effort is intended to both increase development productivity and deliver innovative product capabilities. Our research and development expenditures, which are expensed as incurred, were \$165.9 million in 2013, \$143.6 million in 2012, and \$132.5 million in 2011.

### Competition

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

We believe we currently compete on the basis of the breadth and depth of our products' functionality as well as on the basis of price. Additionally, we compete on the basis of certain other factors, including neutrality, dependability, user efficiency, quality of products, services, support, and versatility. We believe that we currently compete favorably with respect to these factors. For a further discussion on competition, see "Risk Factors — If we do not compete effectively, our revenues may not grow and could decline" in Part I, Item 1A of this Report.

### Seasonality and Backlog

Our business is influenced by seasonal factors, largely due to customer buying patterns. In recent years, the fourth quarter has had the highest level of license revenues and license orders, and we have generally had weaker demand for our software products and services in the first and third quarters of the year. The first, second and fourth quarters of 2013, and the first and fourth quarters of 2012 followed these seasonal trends. However, license revenues in the third quarter of 2013 were higher as compared to the first and second quarters of 2013. In addition, license revenues in the second and third quarters of 2012 were lower as compared to the first quarter of 2012. The uncertain macroeconomic conditions and continued changes in our sales organization make our future results more difficult to predict based on historical seasonal trends. See "Potential Future Revenues (New Orders, Backlog, and Deferred Revenue)" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Report, which is incorporated herein by reference. Our consulting and education services have sometimes been negatively impacted in the fourth and first quarters of the year due to holidays and internal Informatica meetings, which result in fewer billable hours for our consultants and fewer education classes.

### Intellectual Property and Other Proprietary Rights

Our success depends in part upon our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret rights, confidentiality procedures, and licensing arrangements to establish and protect our proprietary rights. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors, and corporate partners and into license agreements with respect to our software, documentation, and other proprietary information. In addition, we have over 75 patents issued in a variety of jurisdictions. Our issued patents are scheduled to expire at various times through February 2031. Where appropriate, we have also entered into patent cross-license agreements with third parties, thereby acquiring additional intellectual property rights which preserve our ability to pursue normal business activity and minimize our risks in entering new and adjacent technology markets.

Nonetheless, our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented, or challenged. In addition, the laws of various foreign countries where our products are distributed do not protect our intellectual property rights to the same extent as U.S. laws. Our inability to protect our proprietary information could harm our business. For a further discussion of our intellectual property rights, see "Risk Factors - If we are not able to adequately protect our proprietary rights, third parties could develop and market products that are equivalent to our own, which would harm our sales efforts" in Part I, Item 1A of this Report.

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Employees

As of December 31, 2013, we had a total of 3,234 employees, including 1,068 in research and development, 1,060 in sales and marketing, 728 in consulting, customer support, and education services, and 378 in general and administrative services. None of our employees is represented by a labor union. We have not experienced any work stoppages, and we consider employee relations to be good.

Additional Information

Informatica's corporate headquarters are located at 2100 Seaport Boulevard, Redwood City, California 94063, and the telephone number at that location is (650) 385-5000. We can also be reached at our Web site at [www.informatica.com](http://www.informatica.com); however, the information in, or that can be accessed through, our Web site is not part of this Report. Informatica was incorporated in California in February 1993 and reincorporated in Delaware in April 1999. Copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available, free of charge, on Informatica's Web site as soon as reasonably practicable after we file such material electronically with the Securities and Exchange Commission ("SEC"). The SEC also maintains a Web site that contains our SEC filings. The address of the site is [www.sec.gov](http://www.sec.gov). The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC, 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

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

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

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

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

We believe we currently compete on the basis of the breadth and depth of our products' functionality, as well as on the basis of price. We may have difficulty competing on the basis of price in circumstances where our competitors develop and market products with similar or superior functionality and pursue an aggressive pricing strategy. For example, some of our competitors may provide guarantees of prices and product implementation, offer data integration products at no cost in order to charge a premium for additional functionality, or bundle data integration and

data quality products at no cost to the customer or at deeply discounted prices for promotional purposes or as a long-term pricing strategy. These difficulties may increase as larger companies target the data integration markets. A customer may be unwilling to pay a separate cost for our data integration products if the customer has a bundled pricing arrangement with a larger company that offers a wider variety of products than us. As a result, increased competition, alternate pricing models and bundling strategies could seriously impede our ability to sell additional products and services on terms favorable to us.

In addition, consolidation among vendors in the software industry is continuing at a rapid pace. Our current and potential competitors may make additional strategic acquisitions, consolidate their operations, or establish cooperative relationships among

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

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

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

Rapid technological changes, including changes in customer requirements and preferences, are characteristic in the software industry. In order to address the expanding data integration needs of our customers and prospective customers, we introduce new products and technology enhancements on a regular basis, including products we acquire. For example, in the past few years, we have delivered a version upgrade to our entire data integration platform by delivering the generally available version of Informatica 9, and introduced Informatica Vibe, an embedded virtual data machine, designed to embed data integration into the next generation of applications. In addition, we extended our existing master data management ("MDM") offerings through the acquisition of Heiler Software, and we introduced various solutions for the cloud market, among others. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex and costly process involving inherent risks, such as:

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

We devote significant resources to the development of new products, the acquisition of products, and the enhancement of existing products, as well as to the integration of these products with each other. As a result of the risks involved, we cannot predict the impact on our overall sales from new or enhanced products, and we may not generate sufficient revenues from these products to justify their costs, which would adversely affect our competitive position and results of operations.

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

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

stock price to significantly fluctuate or decline in the future. Our license revenues, which are primarily sold on a perpetual license basis, are difficult to forecast accurately and are vulnerable to short-term shifts in customer demand. Also, we may experience order deferrals by customers in anticipation of future new product introductions or product enhancements, as well as a result of their particular budgeting and purchase cycles. The continued global economic uncertainty is also likely to cause further customer order deferrals or reductions, stricter customer purchasing controls and approval processes, and adversely affect budgeting and purchase cycles. By comparison, our short-term expenses are relatively fixed and based in part on our expectations of future revenues. In addition, our backlog of license orders at the end of a given fiscal period has tended to vary. Historically, our backlog typically decreases

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from the prior quarter at the end of the first and third quarters and increases from the prior quarter at the end of the fourth quarter. Furthermore, we generally recognize a substantial portion of our license revenues in the last month of each quarter and, sometimes in the last few weeks or days of each quarter. As a result, we cannot predict the adverse impact caused by cancellations or delays in prospective orders until the end of each quarter. Moreover, the expansion of our product portfolio through the introduction of new products and enhancements has increased the complexity and size of our transactions. The likelihood of an adverse impact may be greater if we experience increased average transaction sizes due to a mix of relatively larger deals in our sales pipeline.

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

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

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economies, particularly Europe. Revenues from Europe, the Middle East, and Africa ("EMEA") accounted for approximately 22% and 25% of our total revenues in 2013 and 2012, respectively. We have experienced the adverse effect of economic slowdowns in the past, which resulted in a significant reduction in capital spending by our customers, as well as longer sales cycles and the deferral or delay of purchases of our products.

Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets. In particular, economic concerns continue with respect to the European sovereign debt markets and potential ramifications of any U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending. Such uncertainty and associated conditions have also resulted in volatility in various vertical markets, particularly the financial services and public sectors, which are typically two of the larger vertical sectors that we serve. For example, in 2010 and through the first three quarters of 2012, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in Europe at least until the sovereign debt issues are resolved. In addition, we experienced a decline in financial services transactions in the fourth quarter of 2012 as compared to the fourth quarter of 2011. We expect public sector transactions to continue to be volatile in the near term, and as a result, growth in our business becomes more dependent on growth in the financial services and other sectors in the U.S. and internationally.

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

We continue to invest in our international operations. There are significant risks with overseas investments, and our growth prospects in these regions are uncertain. Increased volatility or further declines in the European credit, equity and foreign currency markets could cause delays in or cancellations of European orders. Deterioration of economic conditions in the countries in which we do business could also cause slower or impaired collections on accounts receivable. In addition, we could experience delays in the payment obligations of our worldwide reseller customers if



they experience weakness in the end-user market, which would increase our credit risk exposure and harm our financial condition.

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

We use a “pipeline” system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all potential sales of our products and estimate when a customer will make a purchase decision and the potential dollar amount of the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We assess the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative. Our pipeline estimates may not consistently correlate to revenues in a particular quarter or over a longer period of time, particularly in a weak or uncertain global macroeconomic environment. In addition, our pipeline estimates can prove to be unreliable in a particular quarter or over a longer period of time,

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in part because both the “conversion rate” of the pipeline into contracts and the quality and timing of pipeline generation can be very difficult to estimate. For example, in the second and third quarters of 2012, continued changes in our sales organization and challenges in our sales execution generally, together with the macroeconomic uncertainty in Europe, adversely affected our pipeline management capabilities, the reliability of our pipeline estimates, and, consequently, our pipeline conversion rate. In particular, in the third quarter of 2012, our pipeline conversion rate was significantly lower as compared to the second quarter of 2012. In response, we made further changes to our sales, marketing and field operations organizations, including the implementation of pipeline generation initiatives, more rigorous sales planning and process measures; however, in the near term, such actions may decrease the predictive value of our pipeline in assessing near term trends in our business or in comparison to historical trends.

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

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

In the past and recently, we have experienced a reduced conversion rate of our overall license pipeline, primarily as a result of general economic slowdowns and general macroeconomic uncertainty, which caused the amount of customer purchases to be reduced, deferred, or cancelled. Although the size of our sales pipeline and our pipeline conversion rate generally have increased as a result of our additional investments in sales personnel and a gradually improving IT spending environment, they are not consistent on a quarter-to-quarter basis. The recent global economic recession and continued macroeconomic uncertainty has had and will continue to have an adverse effect on our pipeline conversion rate in the near future. Our pipeline conversion rate declined in 2008, remained depressed in certain geographies in 2009, increased in 2010 and decreased in certain geographies and vertical industry sectors in 2011 and 2012. If we are unable to continue to increase the size of our sales pipeline and our pipeline conversion rate, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

Furthermore, we have expanded our international operations and opened new sales offices in other countries. We have also experienced leadership transitions in our international sales organizations, continued to make investments in our sales specialists and domain experts, and implemented changes in our worldwide sales, marketing and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline generation and management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. As a result of our international expansion and these changes, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. As our products become more complex and we target new customers for our software and services, we expect to broaden our go-to-market initiatives and, as a result, our expenses may increase. We expect these investments to increase our revenues, sales productivity, and eventually our profitability. However, if we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in productivity and efficiencies from our new sales personnel as they gain more experience, then we may not achieve our expected increases in revenue, sales productivity, and profitability.

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

Due to the expense, broad functionality, and company-wide deployment of our products, our customers' decisions to purchase our products typically require the approval of their executive decision makers. Also, macroeconomic uncertainty and global economic conditions can adversely affect the buying patterns of our customers and prospective customers and lengthen our sales cycle. For example, in the second and third quarters of 2012, the macroeconomic uncertainty in Europe contributed to a delay in customer purchasing decisions and stricter customer purchasing controls and approval processes in EMEA. In addition, we frequently must educate our potential customers about the full benefits of our products, which also can require significant time. These trends toward greater customer executive level involvement or stricter customer purchasing controls and approval processes and increased customer education efforts are likely to increase, particularly as we expand our market focus to broader data integration initiatives. Further, our sales cycle may lengthen as we continue to focus our sales efforts on large corporations. As a result of these factors, the length of time from our initial contact with a customer to the customer's decision to purchase our products

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typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle that could delay, reduce or otherwise adversely affect the purchase of our products, including:

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

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

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

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

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

With our subscription offerings, we generally recognize revenue from customers ratably over the terms of their subscription agreements. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Consequently, a decline in subscriptions in any one quarter may not affect our results in that quarter, but could reduce revenue in future quarters. We may not be able to adjust our cost structure in response to changes in revenue. Accordingly, the effect of significant downturns in sales of our subscription offerings may not be fully reflected in our results of operations until future periods. Also, as revenue from new customers is recognized over the term of their subscription, it is difficult for us to rapidly increase revenue through additional sales in any period. In addition, if we sell certain elements of our subscription-based offerings together with our perpetual license-based products, we may not be able to recognize the revenue associated with the perpetually licensed products up-front, and we may be required to recognize such revenue ratably over the term of the subscription agreement. The timing of such revenue recognition could have a potentially negative impact on our financial performance.

Furthermore, our customers have no obligation to renew their subscriptions after the expiration of their initial subscription period, and in fact, some customers have elected not to renew. As a result, we may not be able to

accurately predict future renewal rates, and our customers' renewal rates may decline or fluctuate as a result of a number of factors, including satisfaction with our subscription offerings, the prices of our subscription offerings and the prices offered by competitors, the perceived information security of our systems, reductions in customers' spending levels and general economic conditions. If our customers do not renew their subscriptions, or if they renew on less favorable terms, our revenue may decline.

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

We have significant operations outside the United States, including sales and professional services operations, software development centers and customer support centers. We have recently expanded our presence and capabilities in a number of major

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geographic regions, including Canada, Mexico, South America, Europe and the Middle East and Asia-Pacific, and we plan to continue such expansion. Our international operations are subject to numerous risks, including:

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

These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, results of operations, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to manage our international operations and the associated risks effectively could limit the future growth of our business.

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

We believe our success depends upon our ability to attract and retain highly skilled personnel and key members of our management team. Historically, there has been a significant level of competition to attract these individuals, and we have recently experienced significant changes in our senior management team. For example, we announced the appointment of a new executive vice president of worldwide field operations and new chief marketing officer in 2012 and a new chief product officer in 2013. As new senior personnel join our company and become familiar with our business strategy and systems, their integration could result in disruption to our ongoing operations.

The market for talent has become increasingly competitive and hiring has become more difficult and costly, and our personnel-related costs are likely to increase as we compete to attract and retain employees. Our employees are increasingly becoming more attractive to other companies. Many of our competitors have greater financial and other

resources than us for attracting experienced personnel. Our plan for continued growth requires us to add personnel to meet our growth objectives and places increased importance on our ability to attract, train, and retain new personnel, in particular, new sales personnel. For example, recent changes we implemented in customer segmentation and sales territories adversely affected the quality of our pipeline estimates in 2012. In addition, the leadership transition in our EMEA sales organization adversely affected our pipeline management capabilities in 2012 and 2013. Continued leadership transitions in our international sales, marketing and field operations may adversely affect our ability to manage and grow our business. As we continue to implement further changes to our worldwide sales, marketing and

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field operations organizations, including the implementation of more rigorous sales planning and process measures and continued investment in sales specialists and domain experts, we may experience increased sales force turnover and additional disruption to our ongoing operations, and we may not experience the increases in sales force productivity that we anticipate, particularly in EMEA. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. If we are unable to effectively attract and train new personnel on a timely basis, or if we experience an increase in the level of turnover, our results of operations may be negatively affected.

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

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

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

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

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

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

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



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

In addition, we may not be able to maintain strategic partnerships or attract sufficient additional strategic partners who have the ability to market our products effectively, are qualified to provide timely and cost-effective customer support and service, or have the technical expertise and personnel resources necessary to implement our products for our customers. In particular, if our strategic partners do not devote sufficient resources to implement our products, we may incur substantial additional costs associated

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with hiring and training additional qualified technical personnel to implement solutions for our customers in a timely manner. Furthermore, our relationships with our strategic partners may not generate enough revenue to offset the significant resources used to develop these relationships. If we are unable to leverage the strength of our strategic partnerships to generate additional revenues, our revenues and the price of our common stock could decline.

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

From time to time, we evaluate potential acquisitions or investments in complementary businesses, products, or technologies. For example, we acquired Active Endpoints in 2013, Data Scout and TierData in 2012, and ActiveBase and WisdomForce Technologies in 2011. In addition, in 2011, we purchased certain assets from Sand Technology relating to their Information Lifecycle Management for SAP product line. Also, in December 2012, we completed the takeover offer for Heiler Software, a publicly-traded German company. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing our ownership to 100 percent. Certain minority shareholders of Heiler Software have initiated appraisal proceedings before the Stuttgart District Court for review of the adequacy of the cash compensation paid in connection with the squeeze-out. These proceedings may result in an increase of the cash compensation to be paid to minority shareholders if the court finds that the valuation underlying the cash compensation was too low.

Acquisitions and investments involve a number of risks, including:

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

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

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

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

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

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

We may not be successful in overcoming these risks or any other problems encountered in connection with our acquisitions or investments. To the extent that we are unable to successfully manage these risks, our business, operating results, or financial condition could be adversely affected, and the price of our common stock could decline.

Due to the complexity and scope of the Heiler Software transaction, the foregoing risks may be exacerbated. Our ability to realize any benefits of the transaction, including any potential synergies, will depend on our ability to fully integrate Heiler Software's business with ours.

In addition, the consideration paid in connection with an investment or acquisition also affects our financial results. If we should proceed with one or more significant acquisitions in which the consideration includes cash, we could be required to use a substantial portion of our available cash to consummate any such acquisition. To the extent that we issue shares of stock or other rights to purchase stock, existing stockholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in our incurring additional taxes, unforeseen or higher than expected costs, debt, material one-time write-offs, or purchase accounting adjustments including the write-down of deferred revenue and restructuring charges. They may also result in recording goodwill and other intangible assets in our financial statements which may be subject to future impairment charges or ongoing amortization costs, thereby reducing future earnings. In addition, from time to time, we may enter into negotiations for acquisitions

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or investments that are not ultimately consummated. Such negotiations could result in significant diversion of management time, as well as incurring expenses that may impact operating results.

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

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

If our products and services do not achieve and/or maintain broad market acceptance, our revenues and revenue growth rate may be adversely affected.

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

In addition to our traditional data integration products, we have expanded our platform to include products and services in the emerging market for broader data integration initiatives, such as cloud data integration, data quality, information lifecycle management, data exchange, and MDM, among others. The market for our broader data integration products and services remains relatively new and continues to change, and efforts to expand beyond our traditional data integration products may not succeed and may not result in significant revenue. Our newer products may not achieve market acceptance if our customers or prospective customers:

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

Market acceptance of our products may also be affected if, among other things, competition substantially increases in the enterprise data integration market or transactional applications suppliers integrate their products to such a degree that the utility of the functionality that our products and services provide is minimized or rendered unnecessary. In addition, in order to enable our sales personnel and our external distribution channel to sell these newer products effectively, we have continued to invest resources and incur additional costs in training programs on new product functionalities, key differentiators, and key business values. If these newer products do not achieve market acceptance, our revenues could be adversely affected and our revenue growth rate, profitability and stock price could decline.

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

The market for our products is characterized by continuing technological development, the emergence of new technologies, evolving industry standards, changing customer needs, and frequent new product introductions and enhancements. The introduction of products by our direct competitors or others incorporating new technologies, the emergence of new industry standards, or changes in customer requirements could render our existing products obsolete, unmarketable, or less competitive. In addition, industry-wide adoption or increased use of hand-coding, open source standards or other uniform open standards across heterogeneous applications could minimize the importance of the integration functionality of our products and materially adversely

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affect the competitiveness and market acceptance of our products. Furthermore, the standards on which we choose to develop new products or enhancements may not allow us to compete effectively for business opportunities.

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

Any significant defect in our products could cause us to lose revenue and expose us to product liability claims. The software products we offer are inherently complex and, despite extensive testing and quality control, have in the past and may in the future contain errors or defects, especially when first introduced. These defects and errors could cause damage to our reputation, loss of revenue, product returns, order cancellations, or lack of market acceptance of our products. As the use of our products, including products recently acquired or developed, expands to more sensitive, secure, or mission critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our products fail to perform as contemplated in such deployments. We have in the past and may in the future need to issue corrective releases of our software products to fix these defects or errors, which could require us to allocate significant customer support resources to address these problems.

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

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

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

- we could be and have been obligated to incur significant legal costs and expenses defending the patent infringement suit;

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

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

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

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

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

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

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

We make significant efforts to maintain the security and integrity of our product source code and computer systems. There appears to be an increasing number of computer "hackers" developing and deploying a variety of destructive software programs (such as viruses, worms, and other malicious software programs) that could attack our products and computer systems, including our internal network. Despite significant efforts to create security barriers to such programs, it is virtually impossible for us to entirely mitigate this risk. Like all software products, our software is vulnerable to such attacks. The impact of such an attack could disrupt the proper functioning of our software products, cause errors in the output of our customers' work, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers and other destructive outcomes. If this were to occur, our reputation may suffer, customers may stop buying our products, we could face lawsuits and potential liability and our financial performance could be negatively affected. In addition, we may need to devote more resources to address security vulnerabilities in our products, and the cost of addressing these vulnerabilities could reduce our operating margins. If we do not address security vulnerabilities or otherwise provide adequate security features in our products, certain customers, particularly government and other public sector customers, may delay or stop purchasing our products. Furthermore, the risks related to security breaches will increase as we continue to develop our cloud products and services, which may store, transmit and process our customers' sensitive, proprietary or confidential data, including personal or identifying information, in cloud-based IT environments. Unauthorized access or security breaches could expose us to loss of this data, litigation, indemnity obligations and significant other liabilities, which may adversely affect our business. In



addition, we also have acquired a number of companies, products, services and technologies over the years. As a result, we may inherit additional IT security issues when we integrate these acquisitions.

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

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

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products and services to such entities. We expect these conditions to continue to adversely affect public sector transactions in the near-term.

In addition, sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully sell our products to such governmental entity. Government entities may require contract terms that differ from our standard arrangements. Government contracts may require the maintenance of certain security clearances for facilities and employees which can entail administrative time and effort possibly resulting in additional costs and delays. In addition, government demand and payment for our products may be more volatile as they are affected by public sector budgetary cycles, funding authorizations, and the potential for funding reductions or delays, making the time to close such transactions more difficult to predict. This risk is enhanced as the size of such sales to the government entities increases. As the use of our products, including products recently acquired or developed, expands to more sensitive, secure or mission critical uses by our government customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our products fail to perform as contemplated in such deployments or should we not comply with the terms of our government contracts or government contracting requirements.

Most of our sales to government entities have been made indirectly through providers that sell our products. Government entities may have contractual or other legal rights to terminate contracts with our providers for convenience or due to a default, and any such termination may adversely impact our future results of operations. For example, if the provider receives a significant portion of its revenue from sales to such governmental entity, the financial health of the provider could be substantially harmed, which could negatively affect our future sales to such provider. Governments routinely audit and investigate government contractors, and we may be subject to such audits and investigations. If an audit or investigation uncovers improper or illegal activities, including any misuse of confidential or classified information by our employees, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with such government entity. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us or our employees or should our products not perform as contemplated in government deployments.

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

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

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

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

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

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year were earned by our Netherlands and other

European subsidiaries. Our results of operations would be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and would be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

The process of determining our anticipated tax liabilities involves many calculations and estimates that are inherently complex and make the ultimate tax obligation determination uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our current tax

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exposures in each jurisdiction where we operate. These estimates involve complex issues, require extended periods of time to resolve, and require us to make judgments, such as anticipating the outcomes of audits with tax authorities and the positions that we will take on tax returns prior to actually preparing the returns. We also determine the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income and other factors in each jurisdiction.

Furthermore, our overall effective income tax rate and tax expenses may be affected by various factors in our business, including acquisitions, changes in our legal structure, changes in the geographic mix of income and expenses, changes in valuation allowances, changes in applicable tax laws and accounting pronouncements. For example, our effective tax rate has historically benefited from the federal research and development tax credit. As of December 31, 2012, the credit had not been extended resulting in no tax benefit in 2012. This credit was extended retroactively for 2012 and prospectively for 2013 in January of 2013. We have recognized the entire benefit of the 2012 research and development credit of approximately \$2.0 million during the first quarter of 2013. The benefit of the 2013 research and development tax credit was recognized in our current year effective tax rate over the entire year. In addition, we incurred significant acquisition integration-related income tax expenses during 2013, which caused our effective tax rate to increase for the full year 2013 compared to 2012. Further, the geographic mix of income and expense is impacted by the fluctuation in exchange rates between the U.S. dollar and the functional currencies of our subsidiaries.

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

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

authorities may initiate proceedings against us and our business may be harmed.

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

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

We continue to experience growth in our customer base and operations, which may place a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our infrastructure will be necessary to scale our operations and increase productivity. These additional investments will increase our costs, and may adversely

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

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

In addition, we need to continue to improve our internal systems, processes, and controls to effectively manage our operations and growth, including our international growth into new geographies, particularly the Asia-Pacific and Latin American markets. We are continually investing resources to upgrade and improve our internal systems, processes and controls in order to meet the growing requirements of our business. For example, we have recently upgraded our human resources information systems and our enterprise resource planning systems. Upgrades or improvements to our internal systems, processes, and controls may require us to implement incremental reconciliation or additional reporting measures to evaluate the effectiveness of such upgrade or improvement, or to adopt new processes or procedures in connection with the upgrade or improvement. We may not be able to successfully implement upgrades and improvements to our systems, processes, and controls in an efficient or timely manner, and we may discover deficiencies in existing systems, processes, and controls, which could adversely affect our business. We have licensed technology and utilized support services from various third parties to help us implement upgrades and improvements. We may experience difficulties in managing upgrades and improvements to our systems, processes, and controls or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller deployments of our products, or increase our technical support costs. The support services available for such third-party technology also may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. In addition, we use both on-premise and cloud resources, and any security or other flaws in such resources could have a negative impact on our internal systems, processes, or controls.

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

Changes in existing financial accounting standards or practices may adversely affect our results of operations. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Changes in existing accounting rules or practices, including the possible conversion to unified international accounting standards, new accounting pronouncements, or varying interpretations of current accounting pronouncements could have a significant adverse effect on our results of operations or the manner in which we conduct our business. For example, the adoption of Financial Accounting Standards Board's ("FASB") Accounting Standards Codification 718, Stock Compensation, has had a significant adverse impact on our consolidated results of operations as it has increased our operating expenses and the number of diluted shares

outstanding and reduced our operating income and diluted earnings per share. Further, we may not be able to accurately forecast the effect of stock-based compensation on our operating income, net income, and earnings per share because the underlying assumptions, including volatility, interest rate, and expected life, of the Black-Scholes-Merton option pricing model could vary over time.

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

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

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

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

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

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

In September 2010, we entered into a credit agreement for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for us to request to increase the revolving loan commitments 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, 2013. The credit agreement contains affirmative and negative covenants, including covenants that may limit or restrict our ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into hedging agreements, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to certain exceptions. We are also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. We were in compliance with all covenants under the credit agreement as of December 31, 2013. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. The breach of any of these covenants for any reason could result in an event of default under our credit facility. If such a default occurs, all of our outstanding debt thereunder, if any, could become immediately due and payable, which could result in a default under any other outstanding debt that we may have incurred and could lead to an acceleration of the obligations related to such other outstanding debt. The existence of such a default could preclude us from borrowing funds under our credit facility. Any such default under our credit facility, if not cured or waived, could have a material adverse effect on us. If our cash is utilized to repay any outstanding debt, depending on the amount of debt outstanding, we could experience an immediate and significant reduction in working capital available to operate our business. Even if we are able to comply with all of the applicable covenants under our credit facility, the restrictions on our ability to operate our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions, investments and other corporate opportunities that may be beneficial to the business.

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

We maintain an investment portfolio, which consists primarily of certificates of deposit, commercial paper, corporate notes and bonds, money market funds, time deposits, municipal securities, U.S. government and agency notes and bonds, and equity securities. Although we follow an established investment policy, which specifies credit quality



standards for our investments and limits the amount of credit exposure to any single issue, issuer, or type of investment, and other criteria in order to help mitigate our exposure to interest rate and credit risk, the assets in our investment portfolio may lose value or become impaired, or our interest income may decline. We may be required to record impairment charges for other-than-temporary declines in fair market value in our investments. Future fluctuations in economic and market conditions could adversely affect the market value of our investments, and we could record additional impairment charges and lose some of the principal value of investments in our portfolio. A total loss of an investment or a significant decline in the value of our investment portfolio could adversely affect our operating results and financial condition. For information regarding interest rate risk, see “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of this Report. In addition, from time to time we make investments in private companies. Our investments in private companies are subject to risk of loss of investment capital. Some of these investments may have been made to further our strategic objectives and support our key business initiatives. Our investments in private companies are inherently

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risky because the markets for the technologies they have under development are typically in the early stages and may never materialize. We could lose the value of our entire investment in these companies.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications or network failure, and other events beyond our control. We have prepared a detailed disaster recovery plan which includes the use of internal and external resources and will continue to expand the scope over time. Disasters or disruptions, such as the March 2011 earthquake and tsunami off the coast of Japan and the December 2006 earthquake off the coast of Taiwan, can negatively affect our operations given necessary interaction among our international facilities. For example, the December 2006 Taiwan earthquake resulted in a major fiber outage, which affected network connectivity in some of our facilities in Asia. In the event such an earthquake or any other natural disaster or man-made failure occurs, it could disrupt the operations of our affected facilities and recovery of our resources. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

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

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in two buildings totaling approximately 290,000 square feet in Redwood City, California, which we purchased in February 2012 and relocated to in the third quarter of 2013. Corporate headquarters are the principal facilities for our administrative, sales, marketing, product development, customer support, and services groups. We also own the associated 11.6 acres of land on which the buildings are located. Prior to the relocation, from January 2005 through August 2013, our corporate headquarters were located in a leased facility in Redwood City, California totaling approximately 159,000 square feet, and we no longer lease this facility.

We also occupy additional leased facilities in the United States, including offices located in Alpharetta, Georgia; Austin and Plano, Texas; Boston, Massachusetts; Chicago and Naperville, Illinois; New York, New York; Raleigh, North Carolina; and Reston, Virginia, which are primarily used for sales, marketing, services, and to a lesser degree, product development. Leased facilities located outside of the United States and used primarily for sales, marketing, customer support, and services include offices in Melbourne and Sydney, Australia; Sao Paulo, Brazil; Toronto, Canada; Beijing, China; Paris, France; Frankfurt, Maxdorf, and Stuttgart, Germany; Mumbai, India; Dublin, Ireland; Tel Aviv, Israel; Tokyo, Japan; Nieuwegein, the Netherlands; Lisbon, Portugal; Singapore; Seoul, South Korea; Barcelona and Madrid, Spain; and London and Maidenhead, United Kingdom.

We also lease facilities in Hyderabad, India, Canberra City, Australia, Toronto, Canada, and St. Petersburg and Kazan, Russia where our offices are primarily used for product development. We also lease a facility in Bangalore, India, which is used primarily for product development, customer support, professional services, finance, and other operations. In addition, we lease office space throughout the world for our local sales and services needs. These leased facilities expire at various times through 2024. We are continually evaluating the adequacy of existing facilities and additional facilities in new cities, and we believe that, if needed, suitable additional space will be available in the future on commercially reasonable terms as needed.

For additional information, see Note 14. Commitments and Contingencies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

ITEM 3. LEGAL PROCEEDINGS

The information set forth in Note 15. Litigation of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

## Price Range of Common Stock

Our common stock is listed on the NASDAQ Global Select Market under the symbol "INFA." The price range per share in the table below reflects the highest and lowest sale prices for our stock as reported by the NASDAQ Global Select Market during the last two fiscal years.

	High	Low
Year Ended December 31, 2013		
Fourth quarter	\$41.50	\$36.40
Third quarter	\$39.93	\$34.75
Second quarter	\$36.86	\$31.15
First quarter	\$37.73	\$30.02
Year Ended December 31, 2012		
Fourth quarter	\$33.63	\$24.90
Third quarter	\$43.37	\$27.49
Second quarter	\$54.15	\$40.02
First quarter	\$53.24	\$35.24

## Holders of Record

At January 31, 2014, there were approximately 79 stockholders of record of our common stock, and the closing price per share of our common stock was \$40.36. Since many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

## Dividends

We have never declared or paid cash dividends on our common stock. Because we currently intend to retain all future earnings to finance future growth, we do not anticipate paying any cash dividends in the near future.

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## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about the repurchase of our common stock for the quarter ended December 31, 2013.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
October 1 — October 31				
From employees <sup>(1)</sup>	1,022	\$39.04	—	—
Repurchase program <sup>(2)</sup>	117,018	\$38.35	117,018	\$27,644
November 1 — November 30				
From employees <sup>(1)</sup>	23,342	\$38.11	—	—
Repurchase program <sup>(2)</sup>	484,367	\$38.70	484,367	\$8,899
December 1 — December 31				
From employees <sup>(1)</sup>	—	—	—	—
Repurchase program <sup>(2)</sup>	125,839	\$38.94	125,839	\$3,999
Total	751,588	\$38.67	727,224	

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

(2) We repurchased shares in the fourth quarter of fiscal 2013 under our ongoing stock repurchase program. This program does not have a specific expiration date and authorizes repurchases in the open market. As of December 31, 2013, we had \$4.0 million remaining under the program for future share repurchases. In January 2014, we announced that our Board of Directors authorized an additional \$100 million increase to the program. For further information about our stock repurchase program, see the subsection Stock Repurchase Plan in Note 7. Stockholders' Equity of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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Five-Year Performance Graph: 2009-2013

The following performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Informatica under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total return to stockholders of Informatica's common stock with the cumulative total return of the NASDAQ Stock Market (U.S.) Index, the NASDAQ Computer and Data Processing Services Group Index, and the NASDAQ U.S. Benchmark Computer Services TR Index. As a result of a change in the total return data made available to us, we will be replacing the NASDAQ Computer and Data Processing Services Group Index with the NASDAQ U.S. Benchmark Computer Services TR Index in our performance graph.

The graph assumes that \$100 was invested on January 1, 2009 in Informatica's common stock and in each of the indices discussed above, including reinvestment of dividends. Historic stock performance is not necessarily indicative of future stock price performance.

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## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with the consolidated financial statements and the notes thereto included in Part II, Item 8 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Report. The selected consolidated statements of income data and consolidated balance sheet data as of and for each of the five years in the period ended December 31, 2013, have been derived from our audited consolidated financial statements. All share and per share amounts have been adjusted to give retroactive effect to stock splits that have occurred since our inception.

	Years Ended December 31,					
	2013	2012	2011	2010	2009	
	(In thousands, except per share data)					
Selected Consolidated Statements of Income Data:						
Revenues:						
Software <sup>(1)</sup>	\$413,738	\$350,175	\$372,229	\$307,113	\$221,177	
Service <sup>(1)</sup>	534,433	461,396	411,550	342,963	279,516	
Total revenues	948,171	811,571	783,779	650,076	500,693	
Cost of revenues:						
Software <sup>(1)</sup>	9,838	7,844	8,121	6,526	4,459	
Service <sup>(1)</sup>	149,136	122,798	115,831	98,561	75,225	
Amortization of acquired technology	22,307	21,980	19,503	13,342	7,950	
Total cost of revenues	181,281	152,622	143,455	118,429	87,634	
Gross profit	766,890	658,949	640,324	531,647	413,059	
Operating expenses:						
Research and development	165,875	143,607	132,528	106,043	78,352	
Sales and marketing	374,315	305,682	278,073	245,498	192,747	
General and administrative	77,641	63,616	57,373	46,273	41,449	
Amortization of intangible assets	7,729	6,578	7,717	9,539	10,051	
Facilities restructuring charges (benefit)	—	710	(1,094	) 1,133	1,661	
Facilities restructuring and facility lease termination costs (benefit), net	2,467	2,797	1,029	1,326	(570	)
Total operating expenses	628,027	522,990	475,626	409,812	323,690	
Income from operations	138,863	135,959	164,698	121,835	89,369	
Interest and other income (expense), net	1,859	1,808	1,930	(686	) 449	
Income before income taxes	140,722	137,767	166,628	121,149	89,818	
Income tax provision	54,327	44,585	49,133	34,825	25,607	
Net income	\$86,395	\$93,182	\$117,495	\$86,324	\$64,211	
Basic net income per common share	\$0.80	\$0.86	\$1.13	\$0.93	\$0.73	
Diluted net income per common share	\$0.78	\$0.83	\$1.05	\$0.83	\$0.66	
Shares used in computing basic net income per common share	108,146	107,874	103,956	92,361	87,991	
Shares used in computing diluted net income per common share	111,394	112,089	112,540	109,083	103,312	

(1) As discussed in Note 2 of this report, we revised presentation of revenues and cost of revenues in 2013.

Subscription revenues and cost of subscription revenues were previously presented within Service, and are now included in Software. Subscription revenues of \$29.2 million, \$18.6 million, \$12.0 million, and \$6.9 million for the years end December 31, 2012, 2011, 2010, and 2009, respectively were reclassified from service revenues to

software revenues. Cost of subscription revenues of \$3.4 million, \$3.1 million, \$2.0 million, and \$1.3 million for the years end December 31, 2012, 2011, 2010, and 2009, respectively were reclassified from cost of service revenues to cost of software revenues.



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	December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$297,818	\$190,127	\$316,835	\$208,899	\$159,197
Short-term investments	\$379,616	\$345,478	\$285,579	\$262,047	\$305,283
Working capital	\$505,386	\$389,534	\$469,861	\$169,253	\$358,435
Total assets	\$1,723,021	\$1,512,217	\$1,380,748	\$1,189,641	\$989,622
Long-term debt	\$—	\$—	\$—	\$—	\$201,000
Total Informatica Corporation stockholders' equity	\$1,235,750	\$1,103,105	\$992,203	\$644,982	\$483,113

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing in Part II, Item 8 of this Report.

**Overview**

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

We receive license revenues from licensing our products under perpetual licenses directly to end users and indirectly through resellers, distributors, and OEMs in the United States and internationally. We also receive an increasing amount of software revenues from our customers and partners under subscription-based licenses for a variety of cloud and address validation offerings. We receive service revenues from maintenance contracts, consulting services, and education services that we perform for customers that license our products either directly or indirectly. Most of our international sales have been in EMEA. Revenues outside of EMEA and North America comprised approximately 10% of total consolidated revenues during 2013 and 2012, and less than 10% during 2011.

During the first quarter of 2013, we performed a review of the presentation of certain of our revenue categories and adopted a revised presentation, which we believe more accurately reflects our evolving product and service offerings. A change was made to rename other revenues to subscription revenues and present subscription revenues and license revenues as software revenues. Other revenues were previously presented in services revenues. A corresponding change was made to present cost of license revenues and cost of other revenues as cost of software revenues. This change in presentation did not affect our total revenues, total cost of revenues or total gross margin. Conforming changes have been made for all prior periods presented. Subscription revenues of \$29.2 million and \$18.6 million for the years ended December 31, 2012, and 2011, respectively, were reclassified

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from service revenues to software revenues. Cost of subscription revenues of \$3.4 million and \$3.1 million for the years ended December 31, 2012 and 2011, respectively, were reclassified from cost of service revenues to cost of software revenues.

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

We grew our total revenues in 2013 by 17% to \$948.2 million compared to \$811.6 million in 2012. Our software revenues increased by 18% to \$413.7 million from \$350.2 million in 2012 due to a 14% increase in license revenues and a 60% increase in subscription revenues. The increase in license revenues reflected increases in the average transaction size of license orders and number of transactions in 2013 compared to 2012. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand of subscription offerings. Service revenues increased by 16% year over year due to a 13% growth in maintenance revenues and a 24% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was due to higher customer demand for both services.

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

**Competition:** Inherent in our industry are risks arising from competition with existing software solutions, including solutions from IBM, Oracle, and SAP, technological advances from other vendors, and the perception of cost savings by solving data integration challenges through customer hand-coding development resources. Our prospective customers may view these alternative solutions as more attractive than our offerings. Additionally, the consolidation activity in our industry poses challenges as competitors market a broader suite of software products or solutions and bundled pricing arrangements to our existing or prospective customers. Moreover, because of current macroeconomic uncertainty, there is increased competition for the allocation of customers' IT budget dollars.

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

**Quarterly and Seasonal Fluctuations:** Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends that are likely to continue in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and license orders, and we generally had weaker demand for our software products and services in the first and third quarters of the year. The first, second and fourth quarters of 2013, and the first and fourth quarters of 2012 followed these seasonal trends. However, license revenues in the third quarter of 2013 were higher as compared to the first and second quarters of 2013, and license revenues in the second and third quarters of 2012 were lower as compared to the first quarter of 2012. The uncertain macroeconomic conditions and recent changes in our sales organization, particularly the recent transition in our EMEA sales leadership, make our future results more difficult to predict based on historical seasonal trends.

**Macroeconomic Conditions:** The United States and many foreign economies, particularly in Europe, continue to experience uncertainty driven by varying macroeconomic conditions. Although some of these economies have shown signs of improvement, including in the United States, the macroeconomic environment remains uncertain and uneven. Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets. In particular, economic concerns continue with respect to the

European sovereign debt markets and potential ramifications of any U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending. Such uncertainty and associated conditions have also resulted in volatility in several of our vertical markets, particularly financial services and public sectors. These conditions have also adversely affected the buying patterns of customers and our overall pipeline conversion rate, as well as our revenue growth expectations. Furthermore, we have made incremental investments in Asia-Pacific and Latin America, and have continued investing in EMEA. There are significant risks with overseas investments, and our growth prospects in these regions are uncertain.

We focus on a number of key initiatives to address these factors and other opportunities and challenges. These key initiatives include the broadening of our distribution capability worldwide, the enablement of our sales force and distribution channel to sell both our existing products and technologies as well as new products and technologies, the alignment of our worldwide sales and

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field operations with company-wide initiatives and the implementation of a more rigorous sales process, the strengthening of our partnerships, and strategic acquisitions of complementary businesses, products, and technologies. If we are unable to execute these key initiatives successfully, we may not be able to continue to grow our business at our historic growth rates.

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

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

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

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

## Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States, which require us to make estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that these assumptions, judgments, and estimates are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported

amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact our consolidated financial statements. On a regular basis, we evaluate our estimates, judgments, and assumptions and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the estimates, judgments, and assumptions involved in the accounting for revenue recognition, income taxes, business combinations, impairment of goodwill and intangible assets, stock-based compensation, and allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the critical accounting estimates associated with these policies. Historically, our estimates, judgments, and assumptions relative to our critical accounting policies have not differed materially from actual results. See Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report for further information on our significant accounting policies.

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## Revenue Recognition

The basis for recognizing our revenue is determined by ASC 985-605, Software Revenue Recognition, ASC 605-25, Multiple Element Arrangements, ASC 605-35, Revenue Recognition for Construction-Type and Production-Type Contracts, and the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") 104, Revenue Recognition, which is discussed in the subsection Revenue Recognition in Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report. The accounting rules related to revenue recognition are complex and require management to make significant judgments. We derive revenues from sales of software licenses, subscription-based licenses for a variety of cloud and address validation offerings, maintenance and support services (which entitle the customer to receive product support and unspecified software updates), and professional services, consisting of consulting and education services. We recognize revenue applying the basic revenue recognition criteria when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable. In applying these criteria to sales transactions, we must exercise judgment and use estimates to determine the amount of software and services revenue to be recognized at each period.

We enter into multiple element arrangements that contain software and software-related elements, such as software licenses, subscription-based licenses for address validation offerings, maintenance and support, consulting, and education services. We use the residual method to allocate revenue to the software license and recognize license revenue upon delivery when vendor-specific objective evidence ("VSOE") of fair value exists for all undelivered elements of the arrangement. 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. We are required to exercise judgment in determining if VSOE exists for each undelivered element.

We enter into multiple element arrangements that contain both software, such as software licenses, and deliverables not within the scope of ASC 985-605, such as cloud offerings. We first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole, and to the elements not within the scope of ASC 985-605. The allocation of arrangement consideration is based on the selling price hierarchy, which includes (i) VSOE if available, (ii) third party evidence ("TPE") if VSOE is not available, or (iii) estimated selling price ("ESP") if neither VSOE nor TPE is available. We then further allocate consideration within the software group to the respective elements within that group following the guidance in ASC 985-605. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element as described above. We establish VSOE for each element based on the price charged when an element is sold separately. In certain limited instances, we are not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to the infrequent selling of each element separately, not pricing products or services within a narrow range, or only having a limited sales history.

For multiple element arrangements that contain both software and deliverables not within the scope of ASC 985-605, when VSOE cannot be established for deliverables not within the scope of ASC 985-605, we attempt to establish a selling price based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. When we are unable to establish a selling price using VSOE or TPE, we use ESP in our allocation of the arrangement consideration. We determine ESP by reviewing historical transactions, including transactions whereby the deliverable was sold on a standalone basis and considering several other external and internal factors including, but not limited to, pricing practices including discounting levels dependent on the size of transactions, whether an order represents an upgrade of a previous order and the type of customer. The determination of ESP is made through consultation with our management, taking into consideration our pricing practices and go-to-market strategy. As our, or our competitors', pricing and go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to our determination of VSOE, TPE and ESP. As a result, our future revenue recognition for multiple-element arrangements could differ materially from our results in the current period. Selling

prices are analyzed on a quarterly basis or more frequently if we experience significant changes in our selling prices. Subscription revenues, primarily consisting of revenues from customers and partners under subscription-based licenses for a variety of cloud and address validation offerings, are recognized ratably over the subscription term. Maintenance revenues, which consist of fees for ongoing support and product updates, if and when available, are recognized ratably over the term of the contract, typically one year.

Consulting revenues are primarily related to configuration, installation, and implementation of our products. These services are generally performed on a time-and-materials basis and, accordingly, revenues are recognized as the services are performed. Occasionally, contracts are on a fixed-fee basis and, accordingly, revenues are recognized on a proportional performance model based on actual services performed. If uncertainty exists about our ability to complete the project, our ability to collect the amounts



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due, or in the case of fixed-fee consulting arrangements, our ability to estimate the remaining costs to be incurred to complete the project, revenue is deferred until the uncertainty is resolved. Consulting services, if included as part of the software arrangement, generally do not require significant modification or customization of the software and are not considered essential to the functionality of the software. If, in our judgment, the software arrangement includes significant modification or customization of the software, then software license revenue is recognized as the consulting services revenue is recognized.

Education service revenues are generated from classes offered at our headquarters, sales and training offices, customer locations, and on-line. Revenues are recognized as the classes are delivered.

We recognize revenues net of applicable sales taxes, financing charges that we have absorbed, and amounts retained by our resellers and distributors, if any. Our agreements do not permit returns, and historically we have not had any significant returns or refunds; therefore, we have not established a sales return reserve at this time.

### Accounting for Income Taxes

We use 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. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of currently enacted tax laws. The effects of any future changes in tax laws or rates have not been taken into account.

A two-step approach is applied pursuant to ASC 740 in the recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in our income tax provision line of our consolidated statements of income.

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.

### Business Combinations

We record the acquired tangible and intangible assets 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 valuation 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. Although we believe the estimates and assumptions that we have made are reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. The following are some of the examples of critical estimates that we have applied in our acquisitions:

- future expected cash flows from software license sales, subscriptions, support agreements, consulting contracts, other customer contracts, and acquired developed technologies and patents;

expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed;

the acquired company's brand and competitive position as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and

discount rates.

Unanticipated events and circumstances may occur that may affect the accuracy of our estimates and assumptions.

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In connection with our acquisitions, we estimate the fair value of the support obligations assumed. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value 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.

We expense transaction costs and restructuring expenses related to the acquisition as incurred and identify pre-acquisition contingencies and determine their respective fair values as of the end of the measurement period. We record any adjustments to pre-acquisition contingencies in our 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 our operating results after the conclusion of the measurement period. Moreover, we identify in-process research and development costs, determine their respective fair values and classify them as an indefinite lived intangible asset until the asset is put to use or deemed to be impaired.

### Accounting for Impairment of Goodwill and Intangible Assets

We assess goodwill for impairment annually on October 31 of each year and whenever an event or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Consistent with our determination that we have only one reporting segment, we have determined that there is only one reporting unit and test goodwill for impairment at the entity level. We test goodwill using the two-step process in accordance with ASC 350, Intangibles - Goodwill and Other. In the first step, we compare the carrying amount of the reporting unit to the fair value based on quoted market prices of our 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, we would compare the implied fair value of the goodwill, as defined by ASC 350, to its carrying amount to determine the amount of impairment loss, if any. We performed our annual goodwill impairment tests on October 31, 2013, 2012, and 2011 and concluded that there was no impairment.

We evaluate intangible 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. We measure any amount of impairment based on the difference between the carrying value and the fair value of the impaired asset. We did not recognize any impairment charges of intangible assets in 2013, 2012, and 2011.

We have made assumptions and estimates about future values and remaining useful lives which are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe that the assumptions and estimates that we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results.

### Stock-based Compensation

We account 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"), performance-based restricted stock units ("PRSUs"), and stock purchased under our Employee Stock Purchase Plan ("ESPP"). 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 its requisite service period. It requires a certain amount of judgment to select the appropriate fair value model and calculate the fair value of stock-based awards, including estimating stock price volatility and expected life. Further, estimates of forfeiture rates could impact stock-based compensation expense from one period to the next.

We have estimated the expected volatility as an input into the Black-Scholes-Merton valuation formula when assessing the fair value of options granted. Our current estimate of volatility is based upon a blend of average historical and market-based implied volatilities of our stock price. To the extent that the volatility rate in our stock

price increases in the future, our estimates of the fair value of options granted will increase accordingly. We derived our expected life of the options that we granted in 2013 from the historical option exercises, post-vesting cancellations, and estimates concerning future exercises and cancellations for vested and unvested options that remain outstanding. In addition, we apply an expected forfeiture rate in determining the amount of stock-based compensation. We use historical forfeitures to estimate our future forfeiture rates.

We recognize the stock-based compensation expense for PRSUs based on the probability of achieving certain performance criteria, as defined in the PRSU agreements. We estimate the number of PRSUs ultimately expected to vest and recognize expense using the graded vesting attribution method over the requisite service period. Changes in our estimates related to probability of

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achieving certain performance criteria and number of PRSUs expected to vest could significantly affect the stock-based compensation expense from one period to the next.

We believe that the estimates that we have used for the calculation of the variables to arrive at stock-based compensation expense are reasonable and appropriate. The assumptions entered into the option valuation model we use to fair value our stock-based awards are subjective estimates, and changes to these estimates will cause the fair value of our stock-based awards and related stock-based compensation expense that we record to vary. We will continue to monitor the historical performance of these variables and will modify our methodology and assumptions in the future as needed.

See Note 8. Stock-based Compensation of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report 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 compensation.

**Allowance for Doubtful Accounts**

We make estimates as to the overall collectability of accounts receivable and provide an allowance for accounts receivable considered uncollectible. We specifically analyze accounts receivable based on historical bad debt experience, customer concentrations, customer credit-worthiness, the age of the receivable, current economic trends, and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We record the adjustment in general and administrative expense.

**Recent Accounting Pronouncements**

For recent accounting pronouncements, see Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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## Results of Operations

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

	Years Ended December 31,				
	2013		2012		2011
Revenues:					
Software	44	%	43	%	47
Service	56		57		53
Total revenues	100		100		100
Cost of revenues:					
Software	1		1		1
Service	16		15		15
Amortization of acquired technology	2		3		2
Total cost of revenues	19		19		18
Gross profit	81		81		82
Operating expenses:					
Research and development	17		17		17
Sales and marketing	40		38		36
General and administrative	8		8		7
Amortization of intangible assets	1		1		1
Facilities restructuring and facility lease termination costs (benefit), net	—		—		—
Acquisitions and other charges	—		—		—
Total operating expenses	66		64		61
Income from operations	15		17		21
Interest and other income (expense), net	—		—		—
Income before income taxes	15		17		21
Income tax provision	6		6		6
Net income	9	%	11	%	15

## Revenues

Our total revenues increased to \$948.2 million in 2013 compared to \$811.6 million in 2012, and \$783.8 million in 2011, representing an increase of \$136.6 million (or 17%) in 2013 from 2012 and an increase of \$27.8 million (or 4%) in 2012 from 2011. The increase in 2013 from 2012 was primarily due to an increase in license revenues resulting from increases in average transaction size and the number of transactions in 2013 as compared to 2012, as well as an increase in maintenance revenues as a result of growth in our customer installed base. The increase in 2012 from 2011 was primarily due to an increase in maintenance revenues as a result of growth in our customer installed base, partially offset by a decrease in license revenues as a result of reduced number of license transactions.

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The following table and discussion compare our revenues for the three years ended December 31, 2013 (in thousands, except percentages):

	Years Ended December 31,			Percentage Change		
	2013	2012	2011	2012 to 2013	2011 to 2012	
Software revenues:						
License	\$367,074	\$320,982	\$353,664	14 %	(9) %	
Subscription	46,664	29,193	18,565	60 %	57 %	
Total software revenues	413,738	350,175	372,229	18 %	(6) %	
Service revenues:						
Maintenance	409,325	360,769	314,043	13 %	15 %	
Consulting and education	125,108	100,627	97,507	24 %	3 %	
Total service revenues	534,433	461,396	411,550	16 %	12 %	
Total revenues	\$948,171	\$811,571	\$783,779	17 %	4 %	

**Software Revenues**

Our software revenues were \$413.7 million (or 44% of total revenues) in 2013 compared to \$350.2 million (or 43% of total revenues) in 2012, and \$372.2 million (or 47% of total revenues) in 2011, representing an increase of \$63.6 million (or 18%) in 2013 from 2012, and a decline of \$22.1 million (or 6%) in 2012 from 2011.

**License Revenues**

Our license revenues were \$367.1 million (or 39% of total revenues) in 2013 compared to \$321.0 million (or 40% of total revenues) in 2012, and \$353.7 million (or 45% of total revenues) in 2011, representing an increase of \$46.1 million (or 14%) in 2013 from 2012, and a decline of \$32.7 million (or 9%) in 2012 from 2011. The increase in license revenues in 2013 from 2012 was primarily due to an increase in the number of transactions and the average transaction size of license orders. The decrease in license revenues in 2012 from 2011 was primarily due to a decrease in the number of license transactions as a result of a decline in our pipeline conversion rate, and due to the factors discussed above in the “Overview” section.

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 2013, including upgrades, for which we charge customers an additional fee, increased to \$484,000 from \$451,000 and \$430,000 in 2012 and 2011, respectively. The number of transactions greater than \$1.0 million increased to 89 in 2013 from 65 in 2012 and 66 in 2011.

**Subscription Revenues**

Subscription revenues, which primarily represent revenues from customers and partners under subscription-based licenses for a variety of cloud and address validation offerings, increased to \$46.7 million (or 5% of total revenues) in 2013 compared to \$29.2 million (or 4% of total revenues) in 2012, and \$18.6 million (or 2% of total revenues) in 2011. The increases in subscription revenues of \$17.5 million (or 60%) in 2013 from 2012, and \$10.6 million (or 57%) in 2012 from 2011 were primarily due to an increase in the installed base of subscription customers and higher customer demand.

We expect our revenues from subscriptions to increase in 2014 from the 2013 levels primarily due to our growing installed customer base and an anticipated increase in demand for subscription offerings.

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### Service Revenues

Our service revenues were \$534.4 million (or 56% of total revenues) in 2013 compared to \$461.4 million (or 57% of total revenues) in 2012, and \$411.6 million (or 53% of total revenues) in 2011, representing growth of \$73.0 million (or 16%) in 2013 from 2012, and \$49.8 million (or 12%) in 2012 from 2011.

### Maintenance Revenues

Maintenance revenues increased to \$409.3 million (or 43% of total revenues) in 2013 from \$360.8 million (or 44% of total revenues) in 2012, and \$314.0 million (or 40% of total revenues) in 2011, representing growth of \$48.6 million (or 13%) in 2013 from 2012, and \$46.7 million (or 15%) in 2012 from 2011. The increases in maintenance revenues in 2013 and 2012 were primarily due to the increasing size of our installed customer base, including those customers acquired through our recent acquisitions. See Note 19. Acquisitions of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

We expect maintenance revenues to increase in 2014 from the 2013 levels due to our growing installed customer base.

### Consulting and Education Revenues

Consulting and education revenues increased to \$125.1 million (or 13% of total revenues) in 2013 from \$100.6 million (or 12% of total revenues) in 2012, and \$97.5 million (or 12% of total revenues) in 2011, representing growth of \$24.5 million (or 24%) in 2013 from 2012, and \$3.1 million (or 3%) in 2012 from 2011. The increases in consulting and education revenues were primarily due to higher customer demand in both services.

We expect our revenues from consulting and education revenues to increase in 2014 from the 2013 levels due to an anticipated increase in demand for consulting services.

### International Revenues

Our international revenues were \$305.5 million (or 32% of total revenues) in 2013, \$287.4 million (or 35% of total revenues) in 2012, and \$267.4 million (or 34% of total revenues) in 2011. The increase of \$18.1 million (or 6%) in 2013 from 2012 was primarily due to increases in maintenance revenues in EMEA, Asia and Latin America; increases in consulting revenues in EMEA and Latin America, partially offset by a decrease in Asia; and increases in subscription revenues in EMEA and Asia. Conversely, license revenues decreased in EMEA, partially offset by an increase in Asia. The increase of \$19.9 million (or 7%) in 2012 from 2011 was primarily due to an increase in maintenance and consulting revenues in EMEA, Asia and Latin America, partially offset by a decrease in license revenues in EMEA.

We expect our international revenues as a percentage of total revenues in 2014 to be relatively consistent with, or increase from, the comparable 2013 levels, subject to the continued macroeconomic uncertainty in Europe.

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

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

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. Aggregate backlog and deferred revenues at December 31, 2013 were approximately \$343.2 million compared to \$297.1 million at December 31, 2012. The increase in 2013 was primarily due to an increase in deferred maintenance revenues. The international portion of aggregate backlog and deferred revenues may



fluctuate with changes in foreign currency exchange rates. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of future results.

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## Cost of Revenues

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

	Years Ended December 31,			Percentage Change	
	2013	2012	2011	2012 to 2013	2011 to 2012
Cost of software revenues	\$9,838	\$7,844	\$8,121	25 %	(3) %
Cost of service revenues	149,136	122,798	115,831	21 %	6 %
Amortization of acquired technology	22,307	21,980	19,503	1 %	13 %
Total cost of revenues	\$181,281	\$152,622	\$143,455		