

ACTUATE CORP
Form 10-Q
August 07, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-24607

Actuate Corporation

(Exact name of Registrant as specified in its charter)

Edgar Filing: ACTUATE CORP - Form 10-Q

Delaware
(State of incorporation)

94-3193197
(I.R.S. Employer

Identification No.)

2207 Bridgepointe Parkway, Suite 500

San Mateo, California 94404

(650) 645-3000

(including area code, of Registrant's principal executive offices)

Former name, former address and former fiscal year, if changed since last report: None

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Title of Class	Outstanding as of June 30, 2009
Common Stock, par value \$.001 per share	45,397,149

Table of Contents

Actuate Corporation

Table of Contents

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	3
	<u>Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008</u>	3
	<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	34
Item 4.	<u>Controls and Procedures</u>	34

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	35
Item 1A.	<u>Risk Factors</u>	36
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	47
Item 6.	<u>Exhibits</u>	47
	<u>Signatures</u>	47

Table of Contents*Part I. Financial Information***Item 1. Financial Statements****ACTUATE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands except share and per share data)****(unaudited)**

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,488	\$ 24,772
Short-term investments	36,360	17,278
Accounts receivable, net of allowance of \$582 and \$606 at June 30, 2009 and December 31, 2008, respectively	18,329	28,017
Other current assets	7,437	6,620
Total current assets	100,614	76,687
Property and equipment, net	4,285	4,729
Goodwill	36,114	36,114
Other purchased intangibles, net	1,350	1,800
Non-current deferred tax assets	13,175	12,602
Non-current investments		16,391
Other assets	1,808	2,189
	\$ 157,346	\$ 150,512
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,383	\$ 2,067
Restructuring liabilities	2,781	3,206
Accrued compensation	4,455	4,514
Other accrued liabilities	4,123	5,299
Income tax payable	369	
Deferred revenue	38,297	40,900
Total current liabilities	51,408	55,986
Long-term liabilities:		
Note payable	30,000	30,000
Other liabilities	899	1,054
Long-term deferred revenue	1,828	2,472
Long term income tax payable	1,686	1,660
Restructuring liabilities, less current portion	1,778	3,092
Total long-term liabilities	36,191	38,278

Edgar Filing: ACTUATE CORP - Form 10-Q

Non-controlling interest in subsidiary	596	584
Stockholders' equity:		
Preferred stock, \$0.001 par value, issuable in series: 5,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.001 par value, 100,000,000 shares authorized; issued 76,741,561 and 75,514,061 shares, respectively; outstanding 45,397,149 and 44,169,649 shares, respectively	45	44
Additional paid-in capital	168,404	160,619
Treasury stock, at cost 31,344,412 shares	(117,299)	(117,256)
Accumulated other comprehensive loss	(746)	(887)
Retained earnings	18,747	13,144
Total stockholders' equity	69,151	55,664
	\$ 157,346	\$ 150,512

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

Table of Contents

ACTUATE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
License fees	\$ 8,534	\$ 12,289	\$ 17,287	\$ 19,899
Maintenance	19,178	18,648	37,549	36,386
Professional Services	1,829	3,663	3,961	7,836
Total revenues	29,541	34,600	58,797	64,121
Costs and expenses:				
Cost of license fees	236	390	436	716
Cost of services	4,793	6,287	9,533	12,562
Sales and marketing	10,492	13,676	21,202	26,814
Research and development	5,208	5,770	10,258	11,401
General and administrative	4,557	4,683	9,632	9,404
Amortization of other purchased intangibles	170	237	340	474
Restructuring charges	70	261	111	403
Total costs and expenses	25,526	31,304	51,512	61,774
Income from operations	4,015	3,296	7,285	2,347
Interest and other income, net	112	453	584	78
Interest expense (income)	(355)	3	(710)	
Income before income taxes	3,772	3,752	7,159	2,425
Provision (benefit) for income taxes	972	857	1,556	(3,377)
Net income	\$ 2,800	\$ 2,895	\$ 5,603	\$ 5,802
Basic net income per share	\$ 0.06	\$ 0.05	\$ 0.13	\$ 0.10
Shares used in basic per share calculation	45,030	60,227	44,745	60,565
Diluted net income per share	\$ 0.06	\$ 0.04	\$ 0.11	\$ 0.09
Shares used in diluted per share calculation	49,235	65,485	48,779	66,370

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

Table of Contents**ACTUATE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands, unaudited)

	Six Months Ended June 30,	
	2009	2008
Operating activities		
Net income	\$ 5,603	\$ 5,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation expense related to stock options and employee stock purchase plan	3,763	5,011
Amortization of other purchased intangibles	450	764
Amortization of debt issuance cost	140	
Depreciation	1,108	1,128
Net operating loss utilizations (adjustments) related to prior acquisitions		(228)
Change in valuation allowance on deferred tax assets	(575)	
Accretion/amortization on short-term debt securities	170	205
Other-than-temporary impairment on Auction Rate Securities (ARS)	734	
Gain on the fair value of put option	(788)	
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance	9,688	14,601
Other current assets	(242)	544
Accounts payable	(681)	(1,191)
Accrued compensation	(59)	(1,682)
Other accrued liabilities	(907)	(1,430)
Deferred tax assets	(8)	(48)
Income taxes receivable	(577)	(3,124)
Income taxes payable	395	
Other liabilities	(155)	(53)
Restructuring liabilities	(1,739)	(1,272)
Deferred revenue	(3,248)	(2,152)
Net cash provided by operating activities	13,072	16,875
Investing activities		
Purchases of property and equipment	(662)	(1,530)
Release of restricted cash	229	
Proceeds from sale and maturity of investments	8,053	46,297
Purchases of short-term investments	(10,783)	(35,137)
Change in other current and non-current assets	(18)	
Net cash provided by (used in) investing activities	(3,181)	9,630
Financing activities		
Tax benefit from exercise of stock options	1,220	
Proceeds from issuance of common stock	2,797	3,606
Stock repurchases		(12,452)
Cost of treasury stock	(258)	
Net cash provided by (used in) financing activities	3,759	(8,846)
Net increase in cash and cash equivalents	13,650	17,659

Edgar Filing: ACTUATE CORP - Form 10-Q

Effect of exchange rates on cash and cash equivalents	66	1,169
Cash and cash equivalents at the beginning of the period	24,772	21,468
Cash and cash equivalents at the end of the period	\$ 38,488	\$ 40,296

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

Table of Contents

ACTUATE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Actuate and its wholly-owned and majority-owned subsidiaries. Actuate has offices throughout North America, Europe and Asia including offices in the United States, Switzerland, United Kingdom, Germany, Singapore, Japan and China. All intercompany balances and transactions have been eliminated.

As of June 30, 2009, Actuate owns approximately 88% of the outstanding voting stock of Actuate Japan Company Ltd. (Actuate Japan). The Company has consolidated the results of Actuate Japan from the date that it became the majority shareholder, which occurred in fiscal year 2000. During the first quarter of fiscal 2009, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* . The standard requires the Company to clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. In addition, the Company applied the measurement guidance upon adoption of March 2008 updates to Emerging Issues Task Force (EITF) D-98 (EITF D-98) effective January 1, 2009 and retrospectively applied the disclosures for all periods presented. The Company measures a redeemable non-controlling interest at the greater of its EITF D-98 measurement amount (calculated redemption value of the put option embedded in the noncontrolling interest) or its Accounting Research Bulletin (ARB) 51 (ARB 51) measurement amount. The adjustments to the measurement amount for increases or decreases in each reporting period will be to additional paid-in capital. For the periods starting January 1, 2009 the Company will adjust net income or loss each period for the amount attributable to the noncontrolling interest. The Company will also adjust comprehensive income or loss each period for the amount attributable to the noncontrolling interest. Upon adoption of the updates to EITF D-98, if material, the Company adjusts the numerator of earnings per share calculations for the current period change in the excess of the noncontrolling interest s EITF D-98 measurement amount over its ARB 51 measurement amount (gross changes approach).

Actuate Japan s financial results are reflected in each revenue, cost of revenue and expense category in consolidated statement of operations. Through June 30, 2009, the operating performance and liquidity requirements of Actuate Japan had not been material to the Company s results of operations or financial condition. Although the Company plans to maintain and expand selling and marketing activities in Japan to add new customers, the future liquidity requirements of Actuate Japan are not expected to be significant.

In May 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events* (SFAS No. 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS No. 165 in the second quarter of fiscal 2009. The Company has evaluated all subsequent events through August 7, 2009, the issuance date of the financial statements for the three months ended June 30, 2009.

Revenue Recognition

Actuate generates revenues from the sales of software licenses and related services. The Company receives software license revenues from licensing its products directly to end-users and indirectly through resellers, system integrators and original equipment manufacturers (OEMs). The Company receives service revenues from maintenance contracts, consulting services and training that Actuate performs for customers.

Actuate recognizes revenues in accordance with AICPA Statement of Position (SOP) 97-2 (SOP 97-2), *Software Revenue Recognition*, as amended and modified by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*. For sales to end-user customers, Actuate recognizes license revenues when a license agreement has been signed by both parties or a definitive agreement has been received from the customer, the product has been shipped, there are no unusual uncertainties surrounding the product acceptance, the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement. Vendor-specific objective evidence of sales to end users is based on the price charged when an element is sold separately. Actuate has not established vendor-specific objective evidence of fair value for its licenses. Therefore, the Company recognizes revenues from arrangements with multiple elements involving software licenses under the residual method. If the license agreement contains payment terms that would indicate that the fee is not fixed or determinable, revenues are recognized as the payments become due and payable, assuming that all other revenue recognition criteria are met.

Edgar Filing: ACTUATE CORP - Form 10-Q

Actuate enters into reseller and distributor arrangements that typically give such distributors and resellers the right to distribute its products to end-users headquartered in specified territories. Actuate recognizes license revenues from arrangements with U.S. resellers and distributors when there is persuasive evidence of an arrangement with the reseller or distributor, the product has been shipped, the fees are fixed or determinable, and collectibility is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement. Actuate recognizes license revenues from arrangements with

Table of Contents

international resellers and distributors upon receipt of evidence of sell-through and when all other revenue recognition criteria have been met. If it is not practical to obtain evidence of sell-through, the Company defers revenues until the end-user has been identified and cash has been received. In some instances there is a timing difference between when a reseller completes its sale to the end-user and the period in which Actuate receives the documentation required for revenue recognition. Because Actuate delays revenue recognition until the reporting period in which the required documentation is obtained, it may recognize revenue in a period subsequent to the period in which the reseller completes the sale to its end-user.

Actuate also enters into OEM arrangements that provide for license fees based on the bundling or embedding of its products with the OEM's products. These arrangements generally provide for fixed, irrevocable royalty payments. Actuate recognizes license fee revenues from U.S. and international OEM arrangements when a license agreement has been executed by both parties, the product has been shipped, there are no unusual uncertainties surrounding the product acceptance, the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement.

Credit-worthiness and collectibility for end-users are assessed based on payment history and current credit profile. When a customer is not deemed credit-worthy, revenues are deferred and recognized upon cash receipt.

Actuate recognizes maintenance revenues, which consist of fees for ongoing support and unspecified product updates, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to standard implementation and configuration. Training revenues are generated from classes offered at the Company's headquarters and customer locations. Revenues from consulting and training services are typically recognized as the services are performed. When a contract includes both license and service elements, the license fee is typically recognized on delivery of the software, assuming all other revenue recognition criteria are met, provided services do not include significant customization or modification of the product and are not otherwise essential to the functionality of the software.

A significant portion of our revenues have historically been derived from customers in the financial services industry. The Company expects that it will continue to derive a significant portion of its revenues from these financial services customers for the foreseeable future. Unfavorable economic conditions have adversely impacted the financial services industry throughout fiscal 2008 and the first half of fiscal 2009. If this trend continues further into 2009, it will likely have a material adverse effect on the Company's business, financial condition and results of operations.

Share-Based Compensation

The Company has various types of share-based compensation plans. These plans are administered by the compensation committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. Readers should refer to Note 9 of the Company's consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, for additional information related to these share-based compensation plans. Share-based compensation expense and the related income tax benefit recognized under Statement of Financial Accounting Standards (SFAS) 123R (SFAS 123R), *Share-Based Payment* in the Condensed Consolidated Statements of Income in connection with stock options and the Employee Stock Purchase Plan (ESPP) for the three and six months ended June 30, 2009 and 2008 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Stock Options	\$ 1,779	\$ 2,141	\$ 3,128	\$ 4,486
ESPP	379	318	635	525
Total stock-based compensation	\$ 2,158	\$ 2,459	\$ 3,763	\$ 5,011
Income tax benefit	\$ 1,220	\$	\$ 1,220	\$

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. We estimated the expected term of options granted by analyzing actual historical experience of exercises and cancellations under our plan. We also looked at the average length of time in which our current outstanding options are expected to be exercised or cancelled based on past experience and the vesting and contractual term. We estimated the volatility of our common stock by using historical volatility over the calculated expected term. We based the risk-free interest rate that we use in the option valuation model on the published Treasury rate. We do not anticipate paying any

Edgar Filing: ACTUATE CORP - Form 10-Q

cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in the option valuation model. The assumptions used to estimate the fair value of stock options granted and stock purchase rights granted under our ESPP Plan for the six months ended June 30, 2009 and 2008 are as follows:

Edgar Filing: ACTUATE CORP - Form 10-Q

	Options				ESPP	
	Six Months Ended				Six Months Ended	
	June 30, 2009		June 30, 2008		June 30, 2009	June 30, 2008
Volatility	57.99	59.03%	62.29	71.49%	94.69%	55.79%
Expected term (years)	5.49	5.52	5.55	5.63	0.5	0.5
Risk free interest rate	1.75	2.625%	2.50	3.50%	0.62%	2.05%
Expected dividend yield	0%		0%		0%	0%
Forfeiture rate	3	4%	3%		N/A	N/A

Table of Contents

In February 2009, the Company granted additional stock options totaling 400,000 shares to its President and Chief Executive Officer (CEO), Mr. Peter Cittadini and 40,000 shares to its Senior Vice President and Chief Financial Officer (CFO), Mr. Daniel Gaudreau. These grants have a shorter term life and therefore require a separate set of assumptions for valuation purposes. For the first quarter of fiscal 2009, the assumptions used for volatility, expected term, risk free interest rate and expected dividend yield were 59.66%, 3.58 years, 1.375% and 0%, respectively.

Net Income Per Share

Basic net income per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of the shares issuable upon the exercise of stock options using the treasury stock method. ESPP shares were not included in the calculation of the common equivalent shares for the periods presented as the impact of these shares in the weighted share calculations were immaterial.

Adjustment to the numerator of earnings per share calculated subsequent to the adoption of the March 2008 updates to EITF D-98 for the current period change in the excess of the noncontrolling interest's EITF D-98 measurement amount over its ARB 51 measurement amount (gross changes approach) does not have a significant impact on earnings per share in the current period.

The table below reconciles the weighted average common shares used to calculate basic net income per share with the weighted-average common shares used to calculate diluted net income per share (in thousands):

	Three Months Ended		Six Months	
	June 30,		Ended	
	2009	2008	2009	2008
Weighted-average common shares outstanding	45,030	60,227	44,745	60,565
Weighted-average dilutive stock options outstanding under the treasury stock method	4,205	5,258	4,034	5,805
Weighted-average common shares used in computing diluted net income per share	49,235	65,485	48,779	66,370

Under the treasury stock method, stock options with exercise prices exceeding the average share price of the Company's common stock during the applicable period are excluded from the diluted earnings per share computation. The weighted-average number of shares excluded from the calculation of diluted net income was 8,180,554 and 8,169,723 in the three and six months ended June 30, 2009, respectively. In the three and six months ended in June 30, 2008, the Company excluded 6,591,182 and 5,667,751 stock options from its calculation of weighted-average common shares used in computing dilutive net income per share. Such stock options, had they been dilutive, would have been included in the computation of diluted net income per share.

The weighted average exercise price of excluded stock options was \$5.45 and \$5.48 for the three and six months ended June 30, 2009, respectively. The weighted average exercise price of excluded stock options was \$6.12 and \$6.32 for the three and six months ended June 30, 2008, respectively.

Table of Contents**Income Taxes**

The Company calculates its interim income tax provision in accordance with Accounting Principles Board Opinion No. 28, *Interim Financial Reporting* and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods* (FIN 18). At the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect, are recognized as discrete items in the interim period in which those items occur. This includes changes in judgment about valuation allowances and the effect of changes in enacted tax laws or rates or tax status.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes.

The Company recognizes and measures uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, whereby the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Comprehensive Income

Other comprehensive income includes currency translation adjustments and unrealized losses on investments that are not included in net income, but rather are recorded directly in stockholders' equity. Comprehensive income during the three and six months of fiscal 2009 and 2008 was comprised of the following (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$ 2,800	\$ 2,895	\$ 5,603	\$ 5,802
Foreign currency translation gain (loss)	956	(138)	66	819
Unrealized gain (loss) on investments	264	(199)	75	(657)
Total comprehensive income	\$ 4,020	\$ 2,558	\$ 5,744	\$ 5,964

The Company realized foreign currency translation gains in the second quarter of fiscal 2009 as the U.S. Dollar strengthened against the Swiss Franc, the Euro and the British Pound. These cumulative currency translation gains relate primarily to the translation and consolidation of the Company's European operations. For the first quarter of fiscal 2009, the weakness in the U.S. Dollar against the Euro, the British Pound and the Swiss Franc resulted in translation losses that were more than offset by the strength of the U.S. Dollar against these European currencies and the corresponding translation gains in the second quarter of fiscal 2009.

Summary of Significant Accounting Policies

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management's opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its financial position, results of operations and cash flows. The Company's interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Actuate's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC on March 12, 2009.

Edgar Filing: ACTUATE CORP - Form 10-Q

To prepare financial statements in conformity with GAAP, management must make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and may result in material effects on the Company's operating results and financial position.

Table of Contents**Recent Accounting Pronouncements**

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 establishes the FASB Standards Accounting Codification (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification will supersede all the existing non-SEC accounting and reporting standards upon its effective date and subsequently, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. SFAS 168 also replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* given that once in effect, the Codification will carry the same level of authority. The Company does not anticipate that the adoption of this statement in the third quarter of this year will have an impact on its financial statement disclosures.

In April 2009, the FASB issued Staff Position FAS 107-1 and Accounting Principles Board Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. The position amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The position also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. For certain of our financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and other current liabilities the carrying amounts approximate their fair value due to the relatively short maturity of these balances. We also believe that our note payable approximates fair value as it's been less than one year since we have entered into this Credit Agreement and that the interest rate on this note is based on a floating market. The Company adopted SFAS 107-1 and APB 28-1 during the second quarter of fiscal 2009 and has provided the corresponding disclosures in Footnote 3 of the Notes to the Condensed Consolidated Financial Statements.

On January 1, 2009, we adopted the provisions of SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS No. 141(R)), which retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but changes the method of applying the acquisition method in a number of ways. Acquisition costs are no longer considered part of the fair value of an acquisition and will generally be expensed as incurred, non-controlling interests are valued at fair value at the acquisition date, in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date, restructuring costs associated with a business combination are generally expensed subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. In April 2009, the FASB issued FSP SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, which amends the guidance in SFAS No. 141(R) to require contingent assets acquired and liabilities assumed in a business combination to be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the measurement period. If fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability would be recognized in accordance with SFAS No. 5, *Accounting for Contingencies*, and FASB Interpretation (FIN) No. 14, *Reasonable Estimation of the Amount of a Loss*. Further, this FSP eliminated the specific subsequent accounting guidance for contingent assets and liabilities from Statement 141(R), without significantly revising the guidance in SFAS No. 141. However, contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination would still be initially and subsequently measured at fair value in accordance with SFAS No. 141(R). The Company adopted the FSP on January 1, 2009. The adoption of FSP SFAS 141(R) did not have a significant impact on the consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-6, *Equity Method Investment Accounting Considerations*. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 was adopted January 1, 2009 and did not have a material effect on our consolidated financial statements as we do not currently have any investments that are accounted for under the equity method.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 was adopted effective January 1, 2009 and did not have an impact on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*. Collectively, the Staff Positions defer the effective date of Statement 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of Statement 157. In addition, in October 2008 the FASB issued FASB Staff Position

Table of Contents

When the Market for That Asset Is Not Active , which clarified the application of how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP No. 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. Effective January 1, 2009, the Company adopted SFAS 157 for all nonfinancial assets and nonfinancial liabilities measured at fair value on a nonrecurring basis. Examples include goodwill, intangibles, and other long-lived assets. The adoption of SFAS 157 did not have a material impact on our consolidated financial statements, results of operations, or cash flows.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FAS 157-4). FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements* , when the volume and level of activity for the asset or liability have significantly decreased. FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The Company adopted FAS 157-4 in the second quarter of fiscal 2009. The adoption of FAS 157-4 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FASB Staff Positions FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* . These positions amend the other-than-temporary impairment guidance in US GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Actuate adopted FAS 115-2 and FAS 124-2 in the second quarter ended June 30, 2009 however the impact on Actuate s consolidated financial statements was not significant.

2. Investment in Actuate Japan

Noncontrolling (minority) Interest - The minority shareholder of Actuate Japan has a non-expiring option to put its equity interest (non-controlling interest) in Actuate Japan to the Company and the Company has the option to call the non-controlling interest. The redeemable non-controlling interest as of June 30, 2009 was approximately 12% of the total equity interest. If the non-controlling interest shareholder chose to put these remaining shares to the Company, Actuate would be required to pay approximately \$596,000 to purchase these shares. The Company measures and discloses a redeemable non-controlling interest in accordance with the policy discussed above at the calculated redemption value of the put option embedded in the non-controlling interest. The non-controlling shareholder is also a distributor of Actuate products in Japan, although the volume of revenues sold through this distributor has historically been immaterial to Actuate Corporation. The Company consolidated 100% of the operating results of Actuate Japan and all investments in the subsidiary are eliminated in consolidation. Through June 30, 2009, the operating performance and liquidity requirements of Actuate Japan had not been material to the Company s results of operations or financial condition. Although the Company plans to maintain and expand its selling and marketing activities in Japan to add new customers, the future liquidity requirements of Actuate Japan is not expected to be significant in the near future. As of the date of this filing, the remaining non-controlling shareholder has not notified the Company of any intent to exercise its put option.

3. Fair Value Measurements of Financial Assets and Liabilities

The Company has investments that are valued in accordance with the provisions of SFAS 157. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access.

Level 2 Valuations based inputs on other than quoted prices included within level 1, for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Table of Contents

The following table represents information about the Company's investments measured at fair value on a recurring basis (in thousands):

	Fair value of investments as of June 30, 2009			
	Total	Quoted Prices		
		In Active	Significant	
		Markets for	Other	Significant
		Identical	Observable	Unobservable
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Money market funds	\$ 12,215	\$ 12,215	\$	\$
Term deposits	14,593	14,593		
Commercial paper	5,995		5,995	
Corporate bonds	10,704		10,704	
Federal and municipal obligations	6,214		6,214	
ARS	14,670			14,670
Put option	1,775			1,775
	\$ 66,166	\$ 26,808	\$ 22,913	\$ 16,445

Certain items in the table above are classified as Level 2 items because quoted prices in an active market are not readily accessible for those specific financial assets, and the Company may have relied on alternative pricing methods that do not rely exclusively on quoted prices to determine the fair value of the investments.

Our investment portfolio includes Auction Rate Securities (ARS) which are investments with contractual maturities. They are usually found in the form of municipal bonds, a pool of student loans or collateralized debt obligations whose interest rates are subject to reset through an auction process. The ARS held by us are primarily backed by highly rated municipal issuers.

As of June 30, 2009, the Company had approximately \$16.4 million in ARS at par value. Since February 2008, substantially all auctions for ARS have failed as a result of the negative overall capital market conditions, meaning that there is not enough demand to sell the securities at auction. While the Company continues to earn interest on its ARS investments at the maximum contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value.

In November 2008, the Company elected to participate in a rights offering by UBS, the Company's investment broker, which provides Actuate with rights (the Put Option) to sell UBS its ARS portfolio at the \$16.4 million par value, at any time during a two-year sale period beginning June 30, 2010. By electing to participate in the rights offering, the Company granted UBS the right, exercisable at any time prior to June 30, 2010 or during the two-year sale period, to purchase or cause the sale of our ARS (the Call Right). UBS has stated that it will only exercise the Call Right for the purpose of restructurings, dispositions or other solutions that will provide their clients with par value for their ARS. UBS has agreed to pay their clients the par value of their ARS within one day of settlement of any Call Right transaction. Notwithstanding the Call Right, the Company is permitted to sell ARS to parties other than UBS, in which case the Put Option attached to the ARS that are sold would be extinguished. At June 30, 2009, the Company has valued the Put Option at the approximate present value of the difference between the fair market value and the par value of the ARS.

At June 30, 2009, the Company has classified the ARS and the related Put Option as current investments on its Consolidated Balance Sheet. This classification was based on the intent and ability of the Company to sell the ARS back to UBS as soon as the Put Option allows, which is currently expected to be June 30, 2010. In prior quarters, the ARS were classified as long-term investments because of the Company's inability to determine when its investments in the ARS would settle, and the fact that the exercisability date of the Put Option exceeded 365 days.

The Company has no reason to believe that any of the underlying issuers of its ARS are presently at risk of default. Through June 30, 2009, the Company has continued to receive interest payments on the ARS in accordance with their terms. Currently, interest is being earned at the maximum contractual rate, which may not exceed the one year trailing average rate on the three month Treasury Bill plus 120 basis points. The Company believes that it will ultimately be able to liquidate its ARS related investments without significant loss primarily due to the collateral securing the ARS and the legal settlement it has entered into with UBS. However, it could take until final maturity of the ARS (up to 38 years) to realize the investments' par value.

Edgar Filing: ACTUATE CORP - Form 10-Q

The estimated fair value of ARS no longer approximates par value. The Company has used a discounted cash flow model to determine the estimated fair value of its investment in ARS as of June 30, 2009. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, timing and amount of cash flows and expected holding periods of the ARS. Based on this assessment of fair value, as of June 30, 2009 the Company determined there was a decline in the fair value of its ARS investments of approximately \$2.6 million in fiscal 2008, and approximately \$788,000 improvement in the fair value of the ARS during the first six months of fiscal 2009, therefore, the net impairment of the ARS investments totaled approximately \$1.8 million as of June 30, 2009. The Company considered the guidance contained in FASB Staff Positions FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other Than-Temporary Impairments*, and determined that 100% of this impairment was other-than-temporary at June 30, 2009. This determination was largely based on the fact that the Company reclassified the ARS investments from available for sale to trading status. This reclassification was based on the fact that Actuate fully intends to sell the ARS as soon as the Put

Table of Contents

Option settlement agreement allows. An other-than-temporary impairment charge is recorded as a realized loss in the Consolidated Statement of Income and reduces net income for the applicable accounting period. Prior to the quarter ended December 31, 2008, the ARS were classified as available-for-sale and all temporary changes in fair value were recognized in Accumulated Other Comprehensive Income (Loss) on the Company's Consolidated Balance Sheet.

FASB issued Staff Positions FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which both deal with other-than-temporary impairments for securities. These FSPs are effective for Actuate beginning with the second quarter of fiscal 2009. However, the impact on Actuate this quarter is not significant.

In the second quarter of 2009, the FASB issued Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides guidance on determining fair value when market activity has decreased. This FSP is effective for Actuate beginning with the second quarter of fiscal 2009. The value of our non-ARS investments that are valued using Level 2 inputs are based on a quoted price from a market that has not experienced a significant decrease in activity. Therefore, the Company will continue using Level 2 inputs from orderly transaction in our fair value measurement of the Level 2 assets.

The following table represents the reconciliation of the beginning and ending balances of the Company's ARS and Put Option measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the first half of fiscal year 2009 (in thousands).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) ARS and Put option
Balance at December 31, 2008	\$ 16,391
Recorded net gain on ARS included in earnings	788
Net loss on fair value of Put option included in earnings	(734)
Balance at June 30, 2009	\$ 16,445

The Company's cash, cash equivalents, short-term investments and non-current investments are as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Realized Changes in fair value	Estimated Fair Value
Balance at June 30, 2009					
Classified as cash and cash equivalents:					
Cash	\$ 8,682	\$	\$	\$	\$ 8,682
Term deposits	14,593				14,593
Money market funds	12,215				12,215
Commercial Paper	2,999		(1)		2,998
	38,489		(1)		38,488
Classified as short-term investments:					
Commercial Paper	2,997				2,997
Corporate bonds	10,602	110	(8)		10,704
Federal and municipal obligations	6,200	14			6,214
ARS	16,475			(1,805)	14,670

Edgar Filing: ACTUATE CORP - Form 10-Q

Put option					1,775	1,775
	36,274	124	(8)	(30)		36,360
Total	\$ 74,763	\$ 124	\$ (9)	\$ (30)		\$ 74,848

Table of Contents

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Realized Changes in fair value	Estimated Fair Value
Balance at December 31, 2008					
Classified as cash and cash equivalents:					
Cash	\$ 21,947	\$	\$	\$	\$ 21,947
Money market funds	1,050				1,050
Federal and municipal obligations	1,775				1,775
	24,772				24,772
Classified as short-term investments:					
Corporate bonds	11,668	29	(24)		11,673
Federal and municipal obligations	5,570	35			5,605
	17,238	64	(24)		17,278
Classified as non-current investments:					
ARS	16,475			(2,593)	13,882
Put option				2,509	2,509
	16,475			(84)	16,391
Total	\$ 58,485	\$ 64	\$ (24)	\$ (84)	\$ 58,441

At this time, the Company believes that, due to the nature of the Company's investments, the financial condition of the issuer and the Company's ability to hold these investments through these short-term loss positions, factors would not indicate that these unrealized losses on investments, other than ARS and the Put Option, should be viewed as other-than-temporary.

As of June 30, 2009, the stated maturities of the Company's cash equivalents and short-term investments are \$15.2 million within 90 days and \$36.4 million beyond 90 days. Short-term investments, other than ARS, are generally classified as available-for-sale and are recorded on the Company's Consolidated Balance Sheet at fair market value with unrealized gains or losses reported as a separate component of Accumulated Other Comprehensive Income (Loss). At June 30, 2009, Actuate has classified all of its securities as short-term investments, even though the stated maturity dates may be one year or more beyond the current balance sheet date as these investments are highly liquid and available for use in current operations.

4. Restructuring Charges

During the first half of fiscal year 2009, we incurred \$83,000 in legal fees related to a previous restructuring which involved the terminations of former employees in one of our European subsidiaries. We also incurred approximately \$28,000 in additional charges related to prior facility closures in North America. These charges were based on actual and estimated costs incurred including estimates of sublease income on portions of our idle facilities that we periodically update based on market conditions and in accordance with our restructuring plans. The restructuring charges incurred during the first half of the year were accounted for in accordance with FAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan.

Historically restructuring charges have included costs associated with reductions in workforce, exits of idle facilities and disposals of fixed assets. These estimates were impacted by the rules governing the termination of employees, especially those in foreign countries.

The following table summarizes the restructuring accrual activity during the six months ended June 30, 2009 (in thousands):

	Severance & Benefits	Facility Related	Total
Balance at December 31, 2008	\$ 561	\$ 5,737	\$ 6,298
Restructuring charges	83	28	111

Edgar Filing: ACTUATE CORP - Form 10-Q

Cash payments, net of rents collected on sublease for Q1	(231)	(837)	(1,068)
Cash payments, net of rents collected on sublease for Q2	(45)	(722)	(767)
Change in estimate	(13)	(2)	(15)
Balance at June 30, 2009	355	4,204	4,559
Less: current portion	(355)	(2,426)	(2,781)
Long-term balance at June 30, 2009	\$	\$ 1,778	\$ 1,778

Table of Contents**5. Segment and Geographic Information**

Our primary operations are located in the United States. Revenues from international sources relate to export sales, primarily to Europe and Asia. Our revenues by geographic area were as follows (in thousands):

	Three Months		Six Months Ended	
	Ended June 30, 2009	2008	June 30, 2009	2008
Revenues:				
North America	\$ 22,968	\$ 25,082	\$ 45,582	\$ 44,645
Europe	5,688	8,705	11,545	16,985
Asia Pacific and others	885	813	1,670	2,491
	\$ 29,541	\$ 34,600	\$ 58,797	\$ 64,121

As of June 30, 2009, we operated solely in one segment, which is the development, marketing and support of the Actuate Enterprise Reporting Application Platform. There were no customers that accounted for more than 10% of total revenues in the three months ended June 30, 2009. There was one customer that accounted for more than 10% of total revenues in the three months ended June 30, 2008. There was no single customer that accounted for more than 10% of total revenues in the six months ended June 30, 2009 or for the six months ended June 30, 2008. A significant portion of the Company's revenues have historically been derived from customers in the financial services industry.

6. Goodwill and Other Purchased Intangible Assets*Goodwill*

In accordance with SFAS 142, the Company performs its annual impairment test of goodwill on October 1 of each year. The Company's goodwill balance of \$36.1 million was unchanged at June 30, 2009 when compared to the balance reported at the end of fiscal year 2008.

Intangibles

Other purchased intangible assets consist of the following (in thousands):

	June 30, 2009			December 31, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Adjustment to Purchase Price Allocation	Net Carrying Amount
Customer list	\$ 14,000	\$ (12,980)	\$ 1,020	\$ 14,000	\$ (12,640)	\$	\$ 1,360
Purchased technologies	8,002	(7,672)	330	8,430	(7,562)	(428)	440
	\$ 22,002	\$ (20,652)	\$ 1,350	\$ 22,430	\$ (20,202)	\$ (428)	\$ 1,800

Amortization expense of purchased technology and other intangible assets was approximately \$225,000 and \$382,000 for the quarters ended June 30, 2009 and 2008, respectively. Of this total, approximately \$55,000 and \$145,000 was related to the amortization of purchased technology. Amortization expense of purchased intangible assets was approximately \$450,000 and \$764,000 for the six months ended June 30, 2009 and 2008, respectively. Of this total, approximately \$110,000 and \$291,000 was related to the amortization of purchased technologies. Amortization of purchased technologies is included in cost of license fees in the accompanying condensed consolidated statements of income. The expected remaining annual amortization expense is summarized as follows (in thousands):

Fiscal Year	Purchased Technology and Intangibles
2009 (remainder of year)	\$ 450
2010	900
	\$ 1,350

Table of Contents

7. Commitments and Contingencies

General

We are engaged in certain legal actions arising in the ordinary course of business. Although there can be no assurance as to the outcome of such litigation, we believe we have adequate legal defenses and we believe that the ultimate outcome of any of these actions will not have a material effect on our consolidated financial position or results of operations.

Revolving credit line

In November 2008, the Company entered into a four year revolving line of credit agreement with Wells Fargo, LLC (*Credit Agreement*). The *Credit Agreement* allows for cash borrowings and letters of credit under a secured revolving credit facility of up to a maximum of \$50.0 million, but not to exceed 80% of the Company's trailing four quarters of recurring maintenance revenue. As of June 30, 2009, the Company owed \$30.0 million on the credit facility. Total costs associated with the facility, including legal and closing fees, amounted to approximately \$1.2 million. Of these total costs, approximately \$825,000 was paid as of June 30, 2009. The remaining balance is comprised of closing fees, of which \$250,000 are due and payable on the first anniversary of the credit facility in November of fiscal year 2009 and \$125,000 is due and payable on the third anniversary in November of fiscal year 2011. These costs are being capitalized and amortized over four years. These costs are classified as current assets if amortized within one year or non-current assets if amortized beyond one year in the Company's Consolidated Balance Sheet at June 30, 2009.

As of June 30, 2009, the remaining balance available under the revolving credit facility was approximately \$20.0 million. Interest is based on a floating rate plus an applicable margin based on the outstanding balance of the amount drawn under the *Credit Agreement*. The floating rate is determined at the Company's election and may either be (i) London Interbank Offered Rate (*LIBOR*) or (ii) the greater of the Federal Funds Rate plus an applicable margin and the Prime Rate. If the Company's usage of the credit line exceeds 80% of its trailing four quarters of recurring maintenance revenue, or if the sum of available funds under the *Credit Agreement* plus available cash is less than \$10.0 million the Company is required to meet certain minimum income targets and be subject to a limit on annual capital expenditures. The Company is required to make interest payments and pay an unused commitment fee on a monthly basis. The Company incurred approximately \$710,000 of interest expense associated with the credit facility during the first half of fiscal year 2009.

Because of the Company's indebtedness, a significant portion of the Company's cash flow from operations is and will be required for debt service. The Company's levels of debt could have negative consequences. It should be noted that:

A substantial portion of the Company's cash flow is, and will be, dedicated to debt service and is not, and will not be, available for other purposes;

The Company's ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate or other purposes may be impaired in the future;

The Company's borrowings are, and will be, at variable rates of interest, which may expose the Company to the risk of increases in interest rates;

The Company's level of indebtedness could make it more vulnerable to economic downturns, limit its ability to withstand competitive pressures and reduce the Company's flexibility in responding to changing business and economic conditions.

The *Credit Agreement* contains financial covenants, which, among other things, require the Company to maintain specified financial ratios and impose certain limitations with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. The Company was in compliance with these financial and non-financial covenants at June 30, 2009. The Company's indebtedness under the *Credit Agreement* is secured by a lien on (i) substantially all of its assets and the assets of Actuate International Corporation and (ii) by a pledge of all of its stock and a portion of the stock of each of its subsidiaries.

Edgar Filing: ACTUATE CORP - Form 10-Q

The Company believes that cash flows from operations will be sufficient to meet its current debt service requirements for interest and any required prepayments under the Credit Agreement. However, if such cash flow is not sufficient, the Company may be required to issue additional debt or equity securities, refinance its obligations, or take other actions in order to make such scheduled payments. The Company cannot be sure that it would be able to effect any such transactions on favorable terms, if at all and failure to do so may cause an event of default under the Credit Agreement, which will have a material adverse effect on the Company's business, operating results and financial conditions.

Operating Lease Commitments

The Company reached the end of its lease term on its previous corporate headquarters located at 701 Gateway, in South San Francisco in February 2008. In anticipation of this event, on June 1, 2007, the Company entered into a five year sublease agreement with a third party for approximately 83,000 square feet of office space in the Bridgepointe Campus in San Mateo, California. This lease is operating in nature, commenced on August 1, 2007 and ends on July 31, 2012. In addition, the lease provided for

Table of Contents

approximately nine months of free rent (rent holiday) and approximately \$600,000 in landlord incentives applied by Actuate towards construction of improvements. As a result, the Company straight-lined its rent expense and recorded a deferred rent liability on its consolidated balance sheet. At June 30, 2009, the deferred rent liability balance totaled approximately \$1.1 million and this balance is being amortized over the life of the lease through July 2012. Of this total deferred rent liability balance, approximately \$297,000 was classified under the current accrued liabilities section of our consolidated balance sheet with the remaining portion of approximately \$774,000 classified under other long term liabilities section of our consolidated balance sheet at June 30, 2009. The incentives were applied to leasehold improvements completed during the fourth quarter of fiscal year 2007. Actuate also leases an additional 50,400 square feet in one facility in South San Francisco, California. The lease on this additional facility will expire in April 2011 and this facility is being entirely subleased. Actuate also leases office facilities in various locations in the United States and abroad. All facilities are leased under operating leases.

In May 2001, Actuate issued a letter of credit in the amount of \$1.6 million to secure the lease of one of its facilities in the South San Francisco location. The lease agreement stipulated that absent an event of default, Actuate had the right to annually reduce the amount of this letter of credit by approximately \$229,000 over a seven year period beginning in May 2002. Accordingly, in May 2009, Actuate exercised its right under the terms of the lease agreement and reduced the final remaining balance of approximately \$229,000 on this letter of credit. As of June 30, 2009, Actuate pledged \$426,000 of restricted cash as collateral for standby letters of credit that guarantee its contractual obligations relating to its corporate headquarter facilities located at the Bridgepointe Campus in San Mateo, California. This restricted cash is classified as Other Assets in the accompanying Consolidated Balance Sheet.

Stock Option Plans

The weighted average grant date fair value of options granted during the quarter ended June 30, 2009 was \$2.45 per option. Upon the exercise of options, the Company issues new common stock from its authorized shares. The total intrinsic value of options exercised during the quarter ended June 30, 2009 was \$1.6 million.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0.78-\$1.49	3,765,360	3.67 years	\$ 1.49	3,765,360	\$ 1.49
\$1.56-\$3.36	2,942,109	5.35 years	\$ 2.69	2,814,928	\$ 2.68
\$3.37-\$3.75	4,327,856	6.65 years	\$ 3.61	2,337,958	\$ 3.65
\$3.77-\$5.43	3,875,382	6.37 years	\$ 4.68	2,352,496	\$ 4.75
\$5.44-\$31.19	2,905,701	7.30 years	\$ 7.43	1,386,921	\$ 8.76
\$0.78-\$31.19	17,816,408	5.85 years	\$ 3.87	12,657,663	\$ 3.56

	June 30, 2009	June 30, 2008
Options Outstanding		
Vested and Expected to Vest	17,587,248	19,318,988
Aggregate intrinsic value (in thousands)	\$ 24,682	\$ 17,330
Weighted average exercise price per share	\$ 3.86	\$ 3.75
Weighted average remaining contractual term (in years)	5.82	5.96
Options Exercisable		
Options currently exercisable	12,657,663	14,164,967
Aggregate intrinsic value of currently exercisable options (in thousands)	\$ 21,585	\$ 16,616
Weighted average exercise price per share	\$ 3.56	\$ 3.20
Weighted average remaining contractual term (in years)	4.84	4.93

Edgar Filing: ACTUATE CORP - Form 10-Q

As of June 30, 2009, the number of shares reserved for future grants under all option plans was 15,562,211. The number of shares available for future purchase under the ESPP Plan was 2,115,258.

Table of Contents**8. Deferred Revenue**

Deferred revenue consists of the following (in thousands):

	June 30, 2009	December 31, 2008
Maintenance and support	\$ 36,761	\$ 38,070
Other	3,364	5,302
	40,125	43,372
Less: current portion	(38,297)	(40,900)
Long-term deferred revenue	\$ 1,828	\$ 2,472

Maintenance and support consists of first year maintenance and support services associated with the initial purchase of Actuate's software, and the renewal of annual maintenance and support services from customers who purchased Actuate's software in prior periods. The maintenance and support period is generally 12 months and revenues are typically recognized on a straight-line basis over the term of the maintenance and support period.

Other deferred revenue consists of deferred license, training and consulting fees generated from arrangements, which did not meet some or all of the revenue recognition criteria of SOP No. 97-2 and are, therefore, deferred until all revenue recognition criteria have been met.

9. Subsequent Events

On July 22, 2009, the Board of Directors approved an on-going extension of the Company's stock repurchase program, which was originally announced in September 2001 and has been extended from time to time. This extension authorized management to make additional repurchases. Under this repurchase program, the Company is authorized to repurchase Actuate common stock of up to an aggregate of \$10.0 million. The Company intends to fund this program with existing cash and cash equivalents. The timing and amount of any repurchases will be determined by our management based on their evaluation of market conditions, regulatory considerations and other factors. Subsequent to June 30, 2009, through August 6, 2009, the Company has repurchased 422,800 shares totaling approximately \$2.3 million in the open market under this stock repurchase plan.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the historical financial information and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q, the consolidated financial statements and notes thereto and the related Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on March 12, 2009.

The statements contained in this Form 10-Q that are not purely historical are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including statements regarding Actuate's expectations, beliefs, hopes, intentions, plans or strategies regarding the future. All forward-looking statements in this Form 10-Q are based upon information available to Actuate as of the date hereof, and Actuate assumes no obligation to update any such forward-looking statements. Actual results could differ materially from Actuate's current expectations. Factors that could cause or contribute to such differences include, but are not limited to, the risks discussed in Part II, Item 1A Risk Factors of this Form 10-Q, Part I, Item 1A Risk Factors in our Annual Report for the year ended December 31, 2008 and in other filings made by the Company with the Securities and Exchange Commission.

Overview

Actuate Corporation (We , Actuate or the Company) was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998. Actuate provides software and services to develop and deploy Rich Internet Applications (RIAs) Without Limits. These RIAs deliver rich interactive content that improve customer loyalty and corporate performance. Applications built on Actuate's open source-based platform provide all stakeholders inside and outside the firewall, including employees, customers, partners and citizens, with information that they can easily access and understand to maximize revenue, cut costs, improve customer satisfaction, streamline operations, create competitive advantage and make better decisions. Our goal is to ensure that all users can use decision-making information in their day-to-day activities, opening up completely new avenues for improving corporate performance. Actuate's principal executive offices are located at 2207 Bridgepointe Parkway, San Mateo, California. Actuate's telephone number is 650-645-3000. Actuate maintains a Web site at www.actuate.com. The information posted on our Web site is not incorporated into this Annual Report.

We began shipping our first product in January 1996. We sell software products through two primary means: (i) directly to end-user customers through our direct sales force and (ii) through indirect channel partners such as OEMs, resellers and system integrators. OEMs generally integrate our products with their applications and either provide hosting services or resell them with their products. Our other indirect channel partners resell our software products to end-user customers. Our total revenues are derived from license fees for software products and fees for services relating to such products, including software maintenance and support, professional services and training.

The software industry is currently experiencing significant challenges, primarily due to a deteriorating macro-economic environment, which is primarily characterized by diminished product demand. As a result of this downturn, some of our customers may face financial challenges in fiscal 2009. It is unclear when the macro-economic environment may improve. We are seeing increasing pressures on our customers' Information Technology budgets, and therefore our customers are looking for more flexibility in the timing of purchases. Facing uncertainty and cost pressures in their own businesses, some of our customers are waiting to purchase our products and are increasingly seeking purchasing terms and conditions that are less favorable to us. This trend partially contributed to lower license revenues for fiscal 2008 and the first half of fiscal 2009, and this trend may continue for the remainder of fiscal 2009. We have also seen a similar impact on our consulting business in the recent quarters.

Our customers may also experience adverse changes in their business and, as a result, may delay or default on their payment obligations, file for bankruptcy or modify or cancel plans to license our products. If our customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Though we have not yet experienced any unusual levels of defaults, any material payment default by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and operating results.

Table of Contents

	Three Months Ended Jun 30, (in thousands except per share data)			
	2009	2008	\$ Change	% Change
Financial summary				
Total revenues	\$ 29,541	\$ 34,600	\$ (5,059)	(15)%
Total operating expenses	25,526	31,304	(5,778)	(18)%
Income from operations	4,015	3,296	719	22%
Operating margins	14%	10%	4%	40%
Net income	\$ 2,800	\$ 2,895	\$ (95)	(3)%
Diluted net income per share	\$ 0.06	\$ 0.04	\$ 0.02	50%
Shares used in diluted per share calculation	49,235	65,485	(16,250)	(25)%

The overall decrease in total revenues was mainly driven by lower license sales which decreased by 31% or approximately \$3.8 million over the same period last year as we continue facing a challenging macro-economic environment, especially in the international markets. Our maintenance and support revenues in the second quarter of fiscal 2009 increased by approximately 3% or \$530,000 over the same period last year as we continue to experience a steady growth in our installed base of customers under maintenance plans and increased focus on customers who were out of compliance with their maintenance agreements and accordingly were required to pay back maintenance. These increases were more than offset by approximately 50% or a \$1.8 million decrease in professional services revenues. The decrease in professional services revenues was mainly due to a weak macro-economic environment which is causing some customers to either delay their projects or cancel their engagements. We believe some customers are opting to use in-house resources to complete previously outsourced projects. Another factor contributing to the decrease in the professional services revenues is the increase in the adoption of BIRT-based projects by our customers which do not require professional service to the same extent as the Company's traditional designer products.

During the second half of fiscal 2008 and in response to the weak macro economic conditions, we implemented a restructuring plan which resulted in the elimination of 46 positions held by Actuate employees primarily in North America, the consolidation of facilities, and the write-off of fixed assets located at facilities that had been vacated. These cost cutting measures combined with operational discipline have primarily been the force behind the 18% or \$5.7 million decrease in operating expenses in the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008. Consequently, our operating margins have improved from 10% in the second quarter of fiscal 2008 to 14% in the second quarter of fiscal 2009. The increase in the fully diluted earnings per share in the second quarter of 2009 over the same period last year was primarily attributed to the reductions in our operating expenses as discussed above and the 25% decrease in our share count, which was mainly due to the tender offer completed in December of 2008 that resulted in the repurchase of approximately 17.1 million shares.

As a result of fluctuations in foreign currency exchange rates, our revenues for the second quarter of this year were negatively impacted by approximately \$570,000 while our operating expenses were positively impacted by approximately \$630,000.

A significant portion of our revenues have historically been derived from customers in the financial services industry. The Company expects that it will continue to derive a significant portion of its revenues from these financial services customers for the foreseeable future. Unfavorable economic conditions have adversely impacted the financial services industry throughout fiscal 2008 and the first half of fiscal 2009. If this trend continues further into 2009, it will likely have a material adverse effect on the Company's business, financial condition and results of operations.

For the remainder of fiscal year 2009, we expect three trends to continue that would have a significant impact on the results of our operations. We currently believe that corporate IT budgets will grow only modestly if at all for the remainder of fiscal year 2009, particularly among financial services companies in the United States and Europe. Second, corporations are reluctant to buy software from new vendors and we continue to witness corporations consolidating their Business Intelligence, Rich Internet Applications (RIA) and Performance Management software purchases into fewer suppliers. Finally, we expect to experience vigorous competition in the RIA market. Several of our competitors have released products that are marketed to be directly competitive with our RIA offerings. The existence of these competitive products may require additional sales and marketing efforts to differentiate our products, which could result in extended sales cycles. We believe that competition in the RIA market will be vigorous in the near future.

Table of Contents

For remainder of fiscal year 2009, we will continue to pursue the strategic initiatives to improve revenue and earnings growth that we began in fiscal year 2004 as well as an initiative related to Performance Management, which we introduced in fiscal 2008. These initiatives are as follows:

Selling to IT Management We are re-focusing our sales efforts on selling our products to IT managers who we believe generally recognize the technical advantages of our products. We hope this initiative will result in increased license revenue in the short term.

Solution Selling to Line-of-Business Management We are creating Performance Management applications and software solutions to market to line-of-business managers. These offerings are in the areas of performance management and customer self service reporting. We hope these initiatives will result in increased license revenue over the medium-to-long term.

Investing in BIRT We are continuing to make a significant investment in creating a new open source business intelligence and reporting tool, known as BIRT. We hope that BIRT will eventually become widely adopted by Java developers and will create demand for our other commercially available products. The BIRT project is a long-term initiative.

Selling to Global 9000 Corporations in the Financial Services Sector We are continuing to focus on selling our products to Global 9000 financial services companies in an effort to increase our substantive market share in this sector. We anticipate a negative impact of the ongoing credit crunch on the Financial Services sector in 2009. However, we believe that once the short term issues in Financial Services are resolved, the industry will once again lead in the adoption of RIA both inside and outside the firewall.

Delivering a Highly Differentiated Performance Management Offering We have integrated Actuate Performancesoft Performance Management applications, BIRT and Actuate's RIA-ready information platform to provide capabilities for distributing accountability throughout the enterprise.

We have a limited ability to forecast future revenues and expenses, thus the prediction of future operating results is difficult. In addition, historical growth rates in our revenues and earnings should not be considered indicative of future revenue or earnings growth rates or operating results. There can be no assurance that any of our business strategies will be successful or that we will be able to achieve and maintain profitability on a quarterly or annual basis. It is possible that in some future quarter our operating results will be below the expectations of public market analysts and investors, and in such event the price of our common stock could decline.

At June 30, 2009, we held \$16.4 million (par value) of ARS investments. ARS are variable-rate debt securities and have a long-term maturity with the interest rate being reset through Dutch auctions that are typically held every 28 days. Prior to February 2008, the securities had historically traded at par and are callable at par at the option of the issuer. Interest is typically paid at the end of each auction period or semiannually. At June 30, 2009, all of the ARS we held were AAA/Aaa rated, with most collateralized by student loans guaranteed by the U.S. government under the Federal Family Education Loan Program.

Until fiscal 2008, the auction rate securities market was highly liquid. During fiscal year 2008, a substantial number of auctions failed, meaning that there was not enough demand to sell the entire issue of the securities that holders desired to sell at auction. The immediate effect of a failed auction is that certain holders cannot sell the securities at auction and the interest or dividend rate on the security generally resets to a maximum auction rate. In the case of a failed auction, with respect to the ARS held by us, the ARS is deemed not currently liquid. In the case of funds invested by us in ARS which are the subject of a failed auction, we may not be able to access the funds prior to maturity without a loss of principal, unless a future auction on these investments is successful or the issuer calls the security pursuant to a mandatory tender or redemption.

In November 2008, the Company elected to participate in a rights offering by UBS, the Company's investment broker, which provides Actuate with rights (the Put Option) to sell UBS its ARS portfolio at the \$16.4 million par value, at any time during a two-year sale period beginning June 30, 2010. By electing to participate in the rights offering, the Company granted UBS the right, exercisable at any time prior to June 30, 2010 or during the two-year sale period, to purchase or cause the sale of our ARS (the Call Right). UBS has stated that it will only exercise the Call Right for the purpose of restructurings, dispositions or other solutions that will provide their clients with par value for their ARS. UBS has agreed to pay their clients the par value of their ARS within one day of settlement of any Call Right transaction. Notwithstanding the Call Right, the Company is permitted to sell ARS to parties other than UBS, in which case the Put Option attached to the ARS that are sold would be extinguished. At June 30, 2009 the Company has valued the Put Option at the approximate present value of the difference between the fair

Edgar Filing: ACTUATE CORP - Form 10-Q

market value and the par value of the ARS.

At June 30, 2009, the Company has classified the ARS and the related Put Option as current investments on its Consolidated Balance Sheet. This classification was based on the intent and ability of the Company to sell the ARS back to UBS as soon as the Put Option allows, which is currently expected to be June 30, 2010. In prior quarters, the ARS were classified as long-term investments because of the Company's inability to determine when its investments in the ARS would settle, and the fact that the exercisability date of the Put Option exceeded 365 days.

Table of Contents

The Company has no reason to believe that any of the underlying issuers of its ARS are presently at risk of default. Through June 30, 2009, the Company has continued to receive interest payments on the ARS in accordance with their terms. Currently, interest is being earned at the maximum contractual rate, which may not exceed the one year trailing average rate on the three month Treasury Bill plus 120 basis points. The Company believes that it will ultimately be able to liquidate its ARS related investments without significant loss primarily due to the collateral securing the ARS and the legal settlement it has entered into with UBS. However, it could take until final maturity of the ARS (up to 38 years) to realize the investments par value.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

For further information about our significant accounting policies, see the discussion under Item 7 to the annual consolidated financial statements as of and for the year ended December 31, 2008, as filed with the SEC on Form 10-K on March 12, 2009.

Results of Operations

The following table sets forth certain consolidated statement of operations data as a percentage of total revenues for the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
Revenues:				
License fees	29%	36%	29%	31%
Maintenance	65	54	64	57
Professional services and training	6	10	7	12
Total revenues	100	100	100	100
Costs and expenses:				
Cost of license fees	1	1	1	1
Cost of services	16	18	16	19
Sales and marketing	35	39	36	41
Research and development	18	17	17	18
General and administrative	15	13	16	15
Amortization of other purchased intangibles	1	1	1	1
Restructuring charges		1		1
Total costs and expenses	86	90	87	96
Income from operations	14	10	13	4
Interest and other income, net		1	1	
Interest expense	(1)		(1)	
Income before income taxes	13	11	13	4
Provision (benefit) for income taxes	3	3	3	(5)
Net income	10%	8%	10%	9%

Table of Contents**Revenues**

The following table represents a breakdown of our total revenues by type of revenue (in thousands):

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
Revenues								
License fees	\$ 8,534	\$ 12,289	\$ (3,755)	(31)%	\$ 17,287	\$ 19,899	\$ (2,612)	(13)%
Maintenance	19,178	18,648	530	3%	37,549	36,386	1,163	3%
Professional services and training	1,829	3,663	(1,834)	(50)%	3,961	7,836	(3,875)	(49)%
Total Revenues	\$ 29,541	\$ 34,600	\$ (5,059)	(15)%	\$ 58,797	\$ 64,121	\$ (5,324)	(8)%
% of Revenue								
License fees	29%	36%			29%	31%		
Maintenance	65%	54%			64%	57%		
Professional services and training	6%	10%			7%	12%		
Total Revenues	100%	100%			100%	100%		

Our revenues are derived from software license fees and services, which include software maintenance and support, consulting and training. The decrease in our license revenues was primarily due to unfavorable macro-economic conditions that continue to adversely impact the financial services industry; a key component of Actuate's customer portfolio. We also experienced a similar deterioration in revenues attributed to our professional services business, which decreased during the second quarter of fiscal 2009 compared to the same period last year. This decrease was mainly due to a weak macro-economic environment which is causing some customers to either delay their projects or cancel their engagements. We believe some customers are opting to use in-house resources to complete previously outsourced projects. Another factor contributing to the decrease in the professional services revenues is the increase in the adoption of BIRT-based projects by our customers which do not require professional service to the same extent as the Company's traditional designer products. Partially offsetting these negative trends in revenues was the increase in our maintenance and support revenues during the second quarter of 2009 which is the result of continued growth in our installed base of customers under maintenance plans. Sales outside of North America decreased by 31% from \$9.5 million in the second quarter of fiscal year 2008 to approximately \$6.6 million in the second quarter of fiscal year 2009. These international revenues represented 22% of our total revenues versus 27% in the same period last year. Approximately \$570,000 of the decrease in international revenues was due to the unfavorable impact of exchange rate fluctuations on revenue transactions denominated in foreign currencies.

For the first half of fiscal year 2009, the changes and the underlying reasons for those changes in the various components of our revenues were similar to those experienced during the quarter as noted above. Revenues outside of North America decreased by 32% from \$19.5 million in the first half of fiscal year 2008 to approximately \$13.2 million in the first half of fiscal year 2009 while North America revenues showed a modest increase of 2% or approximately \$940,000. The increase in North America revenues was primarily due to growth in the Company's installed base of customers under maintenance plans and increased focus on customers who were out of compliance with their maintenance agreements and accordingly were required to pay back maintenance. The international revenues represented 23% of our total revenues versus 30% in the same period last year. Approximately \$1.5 million of the decrease in international revenues was due to the unfavorable impact of exchange rate fluctuations on revenue transactions denominated in foreign currencies.

Table of Contents

The following table represents our license revenues by region (in thousands):

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
License Revenues								
North America	\$ 6,746	\$ 8,915	\$ (2,169)	(24)%	\$ 13,688	\$ 13,534	\$ 154	1%
Europe	1,576	3,267	(1,691)	(52)%	3,265	5,224	(1,959)	(38)%
APAC	212	107	105	98%	334	1,141	(807)	(71)%
Total License	\$ 8,534	\$ 12,289	\$ (3,755)	(31)%	\$ 17,287	\$ 19,899	\$ (2,612)	(13)%

% of total revenue

29%

36%

29%

31%

License fees. The 31% decrease in license revenues for the second quarter of fiscal year 2009 over the same period in the prior year was primarily due to weak macro economic conditions that continue to adversely impact the financial services industry; a key component of Actuate's customer portfolio. We experienced most of this weakness in our international regions where software sales declined by 47% or approximately \$1.6 million during the second quarter of 2009 when compared to the second quarter of fiscal 2008. During the second quarter of fiscal 2009, we closed 57 transactions in excess of \$100,000 and one transaction in excess of \$1.0 million. This compared to 72 transactions in excess of \$100,000 and one transaction in excess of \$1.0 million in the second quarter of fiscal 2008. One of these transactions accounted for over 10% of our total reported software sales for the second quarter of 2008. The number of orders greater than \$1.0 million has historically ranged from none to three per quarter. We do not expect to rely on any one customer for our future business.

The following table represents a breakdown of our service revenues by type of revenue (in thousands):

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
Services Revenues								
Maintenance and support	\$ 19,178	\$ 18,648	\$ 530	3%	\$ 37,549	\$ 36,386	\$ 1,163	3%
Professional services	1,829	3,663	(1,834)	(50)%	3,961	7,836	(3,875)	(49)%
Total Services	\$ 21,007	\$ 22,311	\$ (1,304)	(6)%	\$ 41,510	\$ 44,222	\$ (2,712)	(6)%
% of Services Revenue								
Maintenance and support	91%	84%			90%	82%		
Professional services	9%	16%			10%	18%		
Total Services	100%	100%			100%	100%		

Services. Services revenue is comprised of maintenance and support, professional services, and training. The 6% decrease in services revenues was driven primarily by a 50% decrease in our professional services and consulting revenues. Our professional services revenues continue to decline mostly due to a weak macro-economic environment, which is causing some customers to either delay their projects or cancel their engagements. We believe some customers are opting to use in-house resources to complete previously outsourced projects. Another factor contributing to the decrease in the professional services revenues is the increase in the adoption of BIRT-based projects by our customers which do not require professional service to the same extent as the Company's traditional designer products. This decrease was offset by a 3% growth in our maintenance and support revenues evidenced by the fact that in fiscal year 2009 we are supporting a large percentage of the \$39.9 million in licenses sold in fiscal year 2008 and our increased focus on customers who were out of compliance with their maintenance agreements and

Edgar Filing: ACTUATE CORP - Form 10-Q

accordingly were required to pay back maintenance. Meanwhile, our maintenance declination rate has remained consistent as we continue to experience high renewal rates from our existing customers.

By region, North America accounted for approximately 77% of the total services revenue in the first quarter of fiscal 2009 while the Europe and Asia Pacific regions accounted for 20% and 3% of the total services revenues, respectively. For the same period last year, North America accounted for approximately 73% of the total services revenue while the Europe and Asia Pacific regions accounted for 24% and 3% of the total services revenues, respectively.

Table of Contents

Services margins improved from 72% in the second quarter of fiscal year 2008, to 77% for the second quarter of fiscal year 2009. This improvement was mostly the result of the shift in product mix, which reflected a higher percentage of maintenance and support revenue in the second quarter of fiscal 2009 than in the second quarter of fiscal 2008. Maintenance and support typically carries a higher margin than professional services. Also, the lower professional services revenues resulted in cost reductions in our professional services group that were implemented in the second half of fiscal 2008.

The 6% decrease in services revenues for the six months ended June 30, 2009 was primarily attributed to a 49% decrease in our professional services revenues. This sharp decrease in revenues was mostly due to the unprecedented macro-economic challenges that we faced starting in fiscal 2008 and have continued through fiscal 2009. Due to this challenging environment, as mentioned above, we believe some customers are opting to use in-house resources to complete previously outsourced projects. Another factor contributing to the decrease in the professional services revenues is the increase in the adoption of BIRT-based projects by our customers which do not require professional service to the same extent as the Company's traditional designer products. This decrease was offset by a 3% growth in our maintenance and support revenues evidenced by the fact that in fiscal year 2009 we are supporting a large percentage of the \$39.9 million in licenses sold in fiscal year 2008. Meanwhile, our maintenance declination rate has remained consistent as we continue to experience high renewal rates from our existing customers.

By region, North America accounted for approximately 77% of the total services revenue in the first half of fiscal 2009 while the Europe and Asia Pacific regions accounted for 20% and 3% of the total services revenues, respectively. For the same period last year, North America accounted for approximately 70% of the total services revenue while the Europe and Asia Pacific regions accounted for 27% and 3% of the total services revenues, respectively.

The following table represents our total services revenues by region (in thousands):

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
Services Revenues								
North America	\$ 16,222	\$ 16,167	\$ 55	%	\$ 31,894	\$ 31,111	\$ 783	2%
Europe	4,112	5,438	(1,326)	24%	8,280	11,761	(3,481)	(30)%
APAC	673	706	(33)	(5)%	1,336	1,350	(14)	(1)%
Total Services	\$ 21,007	\$ 22,311	\$ (1,304)	(6)%	\$ 41,510	\$ 44,222	\$ (2,712)	(6)%

% of total revenue 71% 64% 71% 69%

Costs and Expenses*Cost of license fees*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
Cost of license fees	\$ 236	\$ 390	\$ (154)	(40)%	\$ 436	\$ 716	\$ (280)	(39)%
% of license revenue	3%	3%			3%	4%		

Cost of license fees consists primarily of product packaging, documentation, production costs and the amortization of purchased technology. The decrease in cost of license fees in absolute dollars for the second quarter of fiscal year 2009 and the first half of fiscal 2009, compared to the corresponding periods in the prior year, was due primarily to the full amortization of purchased technologies in the third quarter of fiscal 2008 associated with our December 2005 purchase of third party source code. We expect our cost of license fees, as a percentage of revenues from license fees, to remain between 2% and 4% of revenues from license fees for the remainder of fiscal year 2009.

Table of Contents*Cost of services*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance	Variance	June 30,		Variance	Variance
	2009	2008	\$ s	%	2009	2008	\$ s	%
Cost of services	\$ 4,793	\$ 6,287	\$ (1,494)	(24)%	\$ 9,533	\$ 12,562	\$ (3,029)	(24)%
% of services revenue	23%	28%			23%	28%		

Cost of services consists primarily of personnel and related costs, share-based compensation, facilities costs incurred in providing software maintenance and support, training and consulting services, as well as third-party costs incurred in providing training and consulting services. The decrease in cost of services for the second quarter of fiscal year 2009, compared to the corresponding period in the prior year, was primarily due to decrease in consulting revenues as demand for Actuate's professional services engagements decreased substantially during the quarter. In response to this decrease in services engagement opportunities, we reduced our cost structure during the second half of fiscal 2008 and as a result reduced our professional consulting headcount by approximately 25% or 13 employees from 51 to 38 employees worldwide. As a result of these reductions, employee compensation and travel costs decreased by approximately \$380,000 during the second quarter of this year. Third party consulting fees also decreased by approximately \$620,000 in the second quarter of 2009 as compared to the same period in the prior year. This was a direct result of an intentional reduction in the use of external contractors to staff engagements. Finally, during the second quarter of fiscal 2009 internally allocated costs decreased by approximately \$400,000 primarily due to a 50% decrease in consulting revenues and a reduced headcount in the services group.

For the six months ended June 30, 2009, we experienced reductions in similar categories of costs as we did during the quarter. Compensation related and travel expenses decreased by approximately \$800,000 due to slowing revenues and reduced consulting headcount dropped from 51 employees at the end of the second quarter of fiscal 2008 to 38 employees at the end of the second quarter of fiscal 2009. Reduced consulting engagements also impacted our third party consulting fees by approximately \$1.2 million while internally allocated sales support costs to the services cost center decreased by approximately \$960,000 due mainly to a 49% decrease in consulting revenues and decreases in sales related expenses.

We currently expect our cost of services expenses as a percentage of total services revenues to be in the range of 23% to 30% of total services revenues for the remainder of fiscal year 2009.

Sales and marketing

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance	Variance	June 30,		Variance	Variance
	2009	2008	\$ s	%	2009	2008	\$ s	%
Sales and marketing	\$ 10,492	\$ 13,676	\$ (3,184)	(23)%	\$ 21,202	\$ 26,814	\$ (5,612)	(21)%
% of total revenue	35%	39%			36%	41%		

Sales and marketing expenses consist primarily of salaries, commissions, share-based compensation and bonuses earned by sales and marketing personnel, promotional expenses, travel, entertainment and facility costs. The decrease in sales and marketing expenses for the second quarter of fiscal year 2009 was primarily due to headcount reductions resulting from our announced restructuring plan which we implemented in the second half of fiscal 2008. Our sales and marketing headcount decreased by 9% or 17 employees from 181 at the end the second quarter of fiscal 2008 to 164 at the end of the second quarter of fiscal 2009. This headcount reduction as well as the lower commissions resulting from our decreased license revenues resulted in lower compensation, travel and associated costs of approximately \$2.7 million during the second quarter of fiscal 2009. In addition to these reductions, during the second quarter of this year, we negotiated a lower than previously anticipated settlement with a former employee in one of our international regions which resulted in a reversal of approximately \$220,000 of previously accrued legal and compensation costs. Recruiting and marketing programs also decreased by approximately \$320,000 in the second quarter of 2009 as compared to the same period last year. These reductions in cost were offset by the internal allocation of sales costs to our services department, which was lower in the second quarter of fiscal 2009 than in the prior year.

Edgar Filing: ACTUATE CORP - Form 10-Q

For the six months ended June 30, 2009, we experienced reductions in similar categories of costs as we did during the quarter primarily due to reductions to our sales headcount and decreased license bookings, that resulted in decrease compensation, travel and

Table of Contents

related costs of \$4.5 million. We also experienced reductions of approximately \$800,000 in employee events and training related costs compared to the corresponding period last year due to the timing of our annual sales kick-off. This event was originally scheduled for January 2009 but instead was rescheduled for July 2009. However, aside from this timing difference of our annual sales kick-off, we did experience other cost reductions in many categories within sales and marketing. These reductions in cost were offset by a reduction in sales support cost that were internally allocated to our services department. We currently expect our sales and marketing expenses as a percentage of total revenues to be in the range of 37% to 40% of total revenues for the remainder of fiscal year 2009.

Research and development

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance	Variance	June 30,		Variance	Variance
	2009	2008	\$ s	%	2009	2008	\$ s	%
Research and development	\$ 5,208	\$ 5,770	\$ (562)	(10)%	\$ 10,258	\$ 11,401	\$ (1,143)	(10)%
% of total revenue	18%	17%			17%	18%		

Research and development costs consist primarily of personnel and related costs associated with the development of new products, share-based compensation costs, enhancement of existing products, quality assurance and testing. The decrease in research and development expenses in the second quarter and the six months of fiscal year 2009 was primarily attributed to employee compensation and related costs. Total worldwide research and development headcount decreased by 10 employees from 162 at the end the second quarter of fiscal 2008 to 152 at the end of the second quarter of fiscal 2009. Also, during fiscal 2008, we shifted headcount away from North America where employee costs are higher and into China, where employee costs are significantly lower. Headcount increased by 6 employees in China and decreased by 10 employees in North America from June 30, 2008 to June 30, 2009. We believe that continued investments in technology and product development are essential for us to remain competitive in the markets we serve, and expect our research and development expenses as a percentage of total revenues to be in the range of 16% to 19% of total revenues for the remainder of fiscal year 2009.

General and administrative

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance	Variance	June 30,		Variance	Variance
	2009	2008	\$ s	%	2009	2008	\$ s	%
General and administrative	\$ 4,557	\$ 4,683	\$ (126)	(3)%	\$ 9,632	\$ 9,404	\$ 228	2%
% of total revenue	15%	13%			16%	15%		

General and administrative expenses consist primarily of personnel costs, share-based compensation costs and related costs for finance, human resources, information systems and general management, as well as legal, bad debt and accounting expenses. The decrease in general and administrative expenses for the second quarter of fiscal year 2009 was primarily due to lower employee compensation and related costs of \$210,000 due to a slight reduction in our administrative headcount. We also experienced a reduction in bad debt expense of approximately \$150,000 due to improved collections of our outstanding receivables during the quarter and reduced audit and professional advisory fees of approximately \$120,000. These decreases in cost were offset by approximately \$350,000 increase in legal fees resulting from contract compliance matters pursued during the quarter.

For the six months ended June 30, 2009 the increase in general and administrative expenses was primarily due to increased legal fees of approximately \$600,000 and increased audit and tax advisory fees of approximately \$330,000. The increase in audit fees were primarily due to the timing of the field work performed by our independent auditors resulting in higher number of hours charged during first half of fiscal 2009 compared to the same period last year while the increase in the legal fees were due mostly to contract compliance matters during the year. These increases were partially offset by approximately \$340,000 in employee compensation, benefits and recruiting fees due to reduced headcount, a business tax refund of approximately \$180,000 in China and reduction in bad debt charges of approximately \$140,000 due to improved collections of our outstanding receivables during the year.

Table of Contents

We expect our general and administrative expenses to be in the range of 14% to 16% of total revenues for the remainder of fiscal year 2009.

Restructuring charges

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
Restructuring charges	\$ 70	\$ 261	\$ (191)	(73)%	\$ 111	\$ 403	\$ (292)	(73)%
% of total revenue	%	1%			%	1%		

Historically restructuring charges have included costs associated with reductions in workforce, exits of idle facilities and disposals of fixed assets. These estimates were impacted by the rules governing the termination of employees, especially those in foreign countries.

During the second quarter of fiscal year 2009, we incurred \$42,000 in legal fees related to a previous restructuring which involved the terminations of former employees in one of our European subsidiaries. We also incurred approximately \$28,000 in additional charges related to prior facility closures in North America. These charges were based on actual and estimated costs incurred including estimates of sublease income on portions of our idle facilities that we periodically update based on market conditions and in accordance with our restructuring plans. These charges were accounted for in accordance with Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* , which requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan.

During the first half of fiscal year 2009, we incurred \$83,000 in legal fees related to a previous restructuring which involved the terminations of former employees in one of our European subsidiaries. We also incurred approximately \$28,000 in additional charges related to prior facility closures in North America. These charges were based on actual and estimated costs incurred including estimates of sublease income on portions of our idle facilities that we periodically update based on market conditions and in accordance with our restructuring plans. The restructuring charges incurred during the first half of the year were accounted for in accordance with Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* , which requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan.

Interest and other income, net

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2009	2008			2009	2008		
Interest and other income, net	\$ 284	\$ 510	\$ (226)	(42)%	\$ 556	\$ 1,306	\$ (750)	(57)%
Foreign exchange gain/(loss)	(172)	(57)	(115)	202%	28	(1,228)	1,256	(102)%
Total interest and other income, net	\$ 112	\$ 453	(341)	(75)%	\$ 584	\$ 78	\$ 506	649%
Interest (expense) income	(355)	3	(358)	N/A	(710)		(710)	N/A

Interest income for the second quarter and the first half of fiscal 2009 decreased due to an overall decrease in interest rates and lower average cash balances. The rate of return on our investment portfolio dropped from 2.8% at end of the second quarter of 2008 to approximately 1.4% at the end of the second quarter of 2009. Our cash and investment balances were approximately at the same levels at the end of the second quarter of 2009 compared to the same period last year despite the completion of our tender offer in the fourth quarter of fiscal 2008, which was funded by \$30.0 million in cash and an additional \$30.0 million drawn under the Company's credit facility.

During the second quarter, we experienced foreign exchange losses due primarily to the devaluation of the U.S. Dollar against the Australian and Singaporean dollar as well as the Swiss Franc. These losses were partially offset by gains due to the revaluation of the British Pound currency balances held by our Swiss subsidiary against the Swiss Franc. The revaluation of these currency amounts held in Switzerland to Swiss Francs is a required procedure in consolidating and reporting the financial results of our EMEA operations.

Table of Contents

For the first half of fiscal 2009, we realized foreign exchange gains due primarily to the revaluation of the British Pound currency balances held by our Swiss subsidiary against the Swiss Franc. These gains were partially offset by a sharp devaluation of the U.S. Dollar against the Australian Dollar.

For the second quarter and the first half of fiscal year 2009, we recorded interest expense totaling approximately \$286,000 and \$572,000, respectively, on the utilized portion of our credit facility with Wells Fargo Financial (WFF), which was signed in the fourth quarter of fiscal 2008. During the second quarter and the first half of fiscal year 2009, we also recorded unused line fees and capitalized debt issuance costs of approximately \$69,000, and \$138,000, respectively. These costs are being amortized over the term of the credit facility.

Provision for income taxes

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance	Variance	June 30,		Variance	Variance
	2009	2008	\$ s	%	2009	2008	\$ s	%
Provision (benefit) for income taxes	\$ 972	\$ 857	\$ 115	13%	\$ 1,556	\$ (3,377)	\$ 4,933	146%
% of total revenue	3%	3%			3%	(5)%		

For the three months ended June 30, 2009, we recorded an income tax provision of approximately \$972,000, as compared to an income tax provision of approximately \$857,000 for the same period of fiscal year 2008. The increase in the income tax provision for the second quarter of fiscal year 2009 as compared to the second quarter of fiscal year 2008 is primarily due to higher domestic pretax net income. The tax provision for the quarter was also impacted by discreet items which include a beneficial net impact of approximately \$475,000. A majority of this net benefit included adjustments in two different foreign jurisdictions related to changes in the valuation allowance on certain foreign deferred tax assets. The changes in the valuation allowance were made due to changes in judgments related to the use of deferred tax assets within these jurisdictions. The expected utilization of deferred tax assets changed because of restructuring activities in these jurisdictions and changes in future year projections.

For the six months ended June 30, 2009, we recorded an income tax provision of \$1.6 million as compared to an income tax benefit of \$3.4 million for the same period of fiscal year 2008. The increase in the 2009 income tax provision is due to higher domestic pretax net income. The six month tax provision was also impacted by discreet items which includes a beneficial net impact of approximately \$588,000. A majority of this net benefit included adjustments in two different foreign jurisdictions related to changes in the valuation allowance on certain foreign deferred tax assets. The changes in the valuation allowance were made due to changes in judgments related to the use of deferred tax assets within these jurisdictions. The expected utilization of deferred tax assets changed because of restructuring activities in these jurisdictions and changes in future year projections. The tax benefit of \$3.4 million recognized in the first quarter of fiscal 2008 was in relation to the deemed liquidation for U.S. income tax purposes of one of our subsidiaries.

During the three months ended June 30, 2009, the Company increased its total amount of unrecognized tax benefits by approximately \$92,000. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

Liquidity and Capital Resources

	As of	As of	Change \$	Change %
	June 30, 2009	December 31, 2008		
Cash, cash equivalents and investments	\$ 74,848	\$ 58,441	\$ 16,407	28%
Working capital	\$ 49,206	\$ 20,701	\$ 28,505	138%
Note payable	\$ 30,000	\$ 30,000	\$	%
Stockholders' equity	\$ 69,151	\$ 55,664	\$ 13,487	24%

The software industry is currently experiencing significant challenges, primarily due to a deteriorating macro-economic environment, which is characterized by diminished product demand. As a result of this downturn, some of our customers are facing financial challenges in fiscal 2009 and may continue to do so in the foreseeable future. It is unclear when the macro-economic environment may improve. We are seeing increasing

pressures on our customers' Information Technology budgets, and therefore our

Table of Contents

customers are looking for more flexibility in the timing of such purchases. The current economic downturn in our customers' industries has contributed to lower revenues and could continue to adversely impact our future business, operating results and financial condition.

Facing uncertainty and cost pressures in their own businesses, some of our customers are waiting to purchase our products and are increasingly seeking purchasing terms and conditions that are less favorable to us. Our customers may also experience adverse changes in their business and, as a result, may delay or default on their payment obligations, file for bankruptcy or modify or cancel plans to license our products. If our customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Additionally, our customers may seek to renegotiate existing contractual commitments. Though we have not yet experienced any unusual levels of defaults, any material payment default by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and operating results.

Our primary source of cash is receipts from revenue. The primary uses of cash are payroll (salaries, sales commissions, bonuses, and benefits), general operating expenses (marketing, travel, office rent) and debt service payments. Another source of cash is proceeds from the exercise of employee stock options and another use of cash is our stock repurchase program, which is discussed below.

Cash flows from operating activities: Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their software license updates and product support agreements. Payments from customers for software license updates and product support agreements are generally received near the beginning of the contracts' terms, which are generally one year in length. We also generate significant cash from new software license sales and, to a lesser extent, consulting. Our primary uses of cash from operating activities are for personnel related expenditures as well as payments related to taxes and leased facilities. Net cash provided by operating activities decreased in the first half of fiscal 2009 compared to the same period last year primarily due to collection of a large one-time transaction with a customer who was out of compliance with its fiscal 2007 maintenance agreement and accordingly paid back maintenance in the first quarter of fiscal 2008. Days sales outstanding (DSO) which is calculated based on revenue for the most recent quarter and accounts receivable as of the balance sheet date decreased by 22 days from 78 days at December 31, 2008 to 56 days at June 30, 2009.

Cash flows from investing activities: The changes in cash flows from investing activities primarily relate to acquisitions and the timing of purchases, maturities and sales of our investments in marketable securities. We also use cash to invest in capital and other assets to support our growth. Net cash used in investing activities was \$3.2 million in the first half of fiscal 2009 compared to cash provided of \$9.6 million for the same period last year. The increase in cash used primarily relates to the timing of purchases and maturities of marketable securities.

Cash flows from financing activities: The changes in cash flows from financing activities primarily relate to stock repurchases and proceeds from stock option exercise activity. Net cash provided by financing activities of \$3.8 million in the first half of fiscal 2009 compared to \$8.8 million used during the same period last year was because we did not participate in any share buy back programs during the first six months of fiscal 2009 whereas during the same period last year we repurchased approximately 2.6 million shares of common stock in the open market for \$12.4 million.

On July 22, 2009, our Board of Directors approved a share repurchase program of up to an aggregate of \$10.0 million. We intend to fund our repurchase program with existing cash and cash equivalents. The timing and amount of any repurchases will be determined by our management based on their evaluation of market conditions, regulatory considerations and other factors. Subsequent to June 30, 2009, through August 6, 2009, the Company has repurchased 422,800 shares totaling approximately \$2.3 million in the open market under this stock repurchase.

Despite a challenging economic environment, we remain focused on increasing our cashflows from operations and improving our operating margins and profitability. The current economic uncertainties have reduced our visibility in forecasting our future license revenues, from which we largely depend on achieving these goals. As visibility associated with these future license revenues remain limited, we may, from time to time, rely on cost cutting and swift resizing measures to achieve our objective of growth in operating cashflows, operating margins and profitability.

Our capital expenditures for the past two years have primarily consisted of leasehold improvements related to our headquarter facility in San Mateo, California and software costs associated with our internal customer portal project. We currently do not foresee material cash outlays associated with capital projects during the remainder of fiscal year 2009 and expect to see lowered cash payments associated with these activities.

In early November of 2008, we entered into a revolving Credit Agreement with Wells Fargo Foothill and secured a revolving line of credit in the principal amount of up to \$50.0 million. During the fourth quarter of fiscal year 2008, we used \$30.0 million of

Table of Contents

our cash along with \$30.0 million of funds available through this credit facility to complete a \$60.0 million common stock buy back. As of June 30, 2009, we owed \$30.0 million on the credit facility. Total costs associated with the facility including legal and closing fees amounted to approximately \$1.2 million. Of these total costs, approximately \$825,000 was paid as of June 30, 2009. The remaining balance is comprised of closing fees, of which \$250,000 are due and payable on the first anniversary of the credit facility in November of fiscal year 2009 and \$125,000 is due and payable on the third anniversary in November of fiscal year 2011. We are also obligated to make monthly interest payments and expect to pay approximately \$1.1 million in interest on the outstanding \$30.0 million loan balance annually. We expect that these payments will be made through fiscal year 2012 and total approximately \$4.5 million. These payments may fluctuate depending on the outstanding principal balance and changes in interest rates. We currently have full access to the remaining \$20.0 million of unused balance on the credit line and may use this amount to fund future operations or potential acquisitions. Because of our indebtedness, a significant portion of our cash flow from operations is and will be required for debt service. Our levels of debt could have negative consequences for us. It should be noted that:

a substantial portion of our cash flow is, and will be, dedicated to debt service and is not, and will not be, available for other purposes;

our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate or other purposes may be impaired in the future;

our borrowings are, and will be, at variable rates of interest, which may expose us to the risk of increases in interest rates; and

our level of indebtedness could make us more vulnerable to economic downturns, limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions.

We believe that cash flows from operations will be sufficient to meet our current debt service requirements for interest and any required prepayments under the Credit Agreement. However, if such cash flow is not sufficient, we may be required to issue additional debt or equity securities, refinance our obligations, or take other actions in order to make such scheduled payments. We cannot be sure that we would be able to effect any such transactions on favorable terms, if at all and failure to do so may cause an event of default under the Credit Agreement, which will have a material adverse effect on our business, operating results and financial conditions.

Similarly, the Credit Agreement includes limitations on the Company's ability to incur debt, grant liens, make acquisitions, make certain restricted payments such as dividend payments, and dispose of assets. The events of default under the Credit Agreement include payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events. In the case of a continuing event of default, the lenders under the Credit Agreement may, among other remedies, eliminate their commitments to make credit available, declare due all unpaid principal amounts outstanding, and require cash collateral for any letter of credit obligations and foreclose on all collateral which will have a material adverse effect on our business, operating results and financial conditions.

In November 2008, the Company elected to participate in a rights offering by UBS, the Company's investment broker, which provides Actuate with rights (the Put Option) to sell UBS its ARS portfolio at the \$16.4 million par value, at any time during a two-year sale period beginning June 30, 2010. By electing to participate in the rights offering, the Company granted UBS the right, exercisable at any time prior to June 30, 2010 or during the two-year sale period, to purchase or cause the sale of our ARS (the Call Right). UBS has stated that it will only exercise the Call Right for the purpose of restructurings, dispositions or other solutions that will provide their clients with par value for their ARS. UBS has agreed to pay their clients the par value of their ARS within one day of settlement of any Call Right transaction. Notwithstanding the Call Right, the Company is permitted to sell ARS to parties other than UBS, in which case the Put Option attached to the ARS that are sold would be extinguished. At June 30, 2009 the Company has valued the Put Option at the approximate present value of the difference between the fair market value and the par value of the ARS.

At June 30, 2009, the Company has classified the ARS and the related Put Option as current investments on its Consolidated Balance Sheet. This classification was based on the intent and ability of the Company to sell the ARS back to UBS as soon as the Put Option allows, which is currently expected to be June 30, 2010. In prior quarters, the ARS were classified as long-term investments because of the Company's inability to determine when its investments in the ARS would settle, and the fact that the exercisability date of the Put Option exceeded 365 days.

Edgar Filing: ACTUATE CORP - Form 10-Q

We hold our cash, cash equivalents and investments primarily in the United States, Switzerland, and Singapore. As of June 30, 2009, we held an aggregate of approximately \$54.1 million in cash, cash equivalents and investments in the United States and an aggregate of \$20.7 million in foreign accounts. Funds in foreign accounts are primarily generated from revenue outside North America and are used to fund oversea operations.

We expect cash provided by operating activities to fluctuate in future periods as a result of a number of factors, including timing of our billings and collections, our operating results, the timing and amount of tax and other liability payments and cash used in any future acquisitions.

Table of Contents***Contractual Obligations and Commercial Commitments***

Our license agreements include indemnification for infringement of third party intellectual property rights and certain warranties. No amounts have been accrued relating to those indemnities and warranties.

In November 2008, the Company entered into a four year revolving line of credit agreement (Credit Agreement) with Wells Fargo Foothill, LLC (Wells Fargo). The Credit Agreement was effective as of November 3, 2008 and allows for cash borrowings and letters of credit under a secured revolving credit facility of up to a maximum of \$50.0 million, but not to exceed 80% of the Company's trailing four quarters of recurring maintenance revenue. Interest is based on a floating rate plus an applicable margin based on the outstanding balance of the amount drawn under the Credit Agreement. The floating rate is determined at the Company's election and may either be (i) London Interbank Offered Rate (LIBOR) or (ii) the greater of the Federal Funds Rate plus an applicable margin and the Prime Rate. If the Company's usage of the credit line exceeds 80% of its trailing four quarters of recurring maintenance revenue, or if the sum of available funds under the Credit Agreement plus available cash is less than \$10.0 million, the Company is required to meet certain minimum income targets and be subject to a limit on annual capital expenditures. The Company is required to make interest payments and pay an unused commitment fee on a monthly basis. The Credit Agreement also requires that the Company pay a commitment fee based on a percentage of unused portion of the overall available facility. These costs along with related legal costs are classified as current assets in the Company's Consolidated Balance Sheet at June 30, 2009 if payable within one year or non-current assets if payable beyond one year.

The Company reached the end of its lease term on its previous corporate headquarters located at 701 Gateway, in South San Francisco in February 2008. In anticipation of this event, on June 1, 2007, the Company entered into a five year sublease agreement with Oracle Corporation for approximately 83,000 square feet of office space in the Bridgepointe Campus in San Mateo, California. This lease is operating in nature, commenced on August 1, 2007 and ends on July 31, 2012. In addition, the lease provided for approximately nine months of free rent (rent holiday) and approximately \$600,000 in landlord incentives applied by Actuate towards construction of improvements. The incentives were applied to leasehold improvements completed during the fourth quarter of fiscal year 2007.

In May 2001, Actuate issued a letter of credit in the amount of \$1.6 million to secure the lease of one of its facilities in the South San Francisco location. The lease agreement stipulated that absent an event of default, Actuate had the right to annually reduce the amount of this letter of credit by approximately \$229,000 over a seven year period beginning in May 2002. Accordingly, in May 2009, Actuate exercised its right under the terms of the lease agreement and reduced the final remaining balance of approximately \$229,000 on this letter of credit.

As of June 30, 2009, Actuate pledged \$426,000 of restricted cash, as collateral for a standby letter of credit that guarantees its contractual obligations relating to its sublease agreement for its corporate headquarter facilities located at the Bridgepointe Campus in San Mateo, California. This restricted cash is classified as Other Assets in the accompanying Consolidated Balance Sheet.

The following table summarizes our contractual obligations as of June 30, 2009 (in thousands):

	Total	Less than 1 year	1 3 years	3 5 years	Thereafter
Obligations:					
Operating leases (1)	\$ 16,371	\$ 6,416	\$ 8,061	\$ 1,598	\$ 296
Purchase obligations (2)	4,484	4,393	76	10	5
Interest and loan obligations (3)	4,045	1,345	2,314	386	
Obligations under FIN 48 (4)	1,686		1,686		
Total	\$ 26,586	\$ 12,154	\$ 12,137	\$ 1,994	\$ 301
	Total	Less than 1 year	1 3 years	3 5 years	Thereafter
Contractual sublease proceeds	\$ 3,107	\$ 1,593	\$ 1,514	\$	\$

Edgar Filing: ACTUATE CORP - Form 10-Q

- (1) Our future contractual obligations include minimum lease payments under operating leases at June 30, 2009. Of the remaining future minimum lease payments, approximately \$6.4 million is included in restructuring liabilities on the Company's Consolidated Balance Sheet as of June 30, 2009. Contractual sublease proceeds associated with these minimum lease payments total approximately \$3.1 million and are also included in restructuring liabilities on the Company's Consolidated Balance Sheet as of June 30, 2009.
- (2) Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the ordinary course of business for which we have not received the goods or services as of June 30, 2009. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

Table of Contents

- (3) Estimated interest and commitment fees related to the revolving line of Credit Agreement with Wells Fargo Foothill.
- (4) Represents the tax liability associated with uncertain tax positions. See FIN 48 discussion in Note 11 of our Notes to Consolidated Financial Statements of our Form 10-K for fiscal year 2008 filed with the SEC on March 12, 2009.

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

Market Risk. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of credit risk, fluctuations in interest rates and foreign exchange rates.

Foreign Currency Exchange Risk. During the first six months of fiscal years 2009 and 2008 we derived 23% and 30%, respectively, of our total revenues from sales outside of North America. We face exposure to market risk on these receivables with respect to fluctuations in the relative value of currencies. Our international revenues and expenses are denominated in foreign currencies, principally the Euro and the British Pound Sterling. The functional currency of each of our foreign subsidiaries is the local currency. As exchange rates vary, transaction gains and losses may vary from expectations and adversely impact overall expected profitability. Our realized gains due to foreign exchange rate fluctuations was approximately \$28,000 for the first six months of fiscal 2009 compared to losses of approximately \$1.2 million during the same period last year. During the first half of fiscal 2009, exchange rate fluctuations on foreign revenue transactions negatively impacted our total revenue growth by approximately \$1.5 million when compared to the same period in the prior year.

Interest Rate Risk. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality debt securities, or other than our ARS investments, which have recently become illiquid (additional information regarding our ARS investment portfolio is detailed in Note 3 to the Consolidated Financial Statements for the period ended June 30, 2009). Due to the nature of our investments, we believe that there is limited risk exposure.

We also have a \$30.0 million loan with Wells Fargo Foothill which we used to partially fund our tender offer in 2008. We performed a sensitivity analysis on the outstanding portion of this loan as of June 30, 2009. The analysis is based on an estimate of the hypothetical changes in annual interest expense that would result from an immediate increase/decrease in interest rates.

The analysis is shown as of June 30, 2009:

Annual change in interest expense (in thousands)					
-1.5%	-1.0%	-0.5%	+0.5%	+1.0%	+1.5%
\$ (450)	\$ (300)	\$ (150)	\$ 150	\$ 300	\$ 450

Credit Risk. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities, and trade accounts receivable. We have policies that limit investments to only investment grade securities. We also limit the amount of credit exposure to any one issuer. We perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses. We do not require collateral or other security to support customer receivables. Our credit risk is also mitigated because our customer base is diversified by geography and no single customer has accounted for more than 10% of our consolidated revenue on an annual basis. We generally do not use foreign exchange contracts to hedge the risk in receivables denominated in foreign currencies. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Our investments portfolio includes ARS. Until fiscal 2008, the auction rate securities market was highly liquid. During fiscal year 2008, a substantial number of auctions failed, meaning that there was not enough demand to sell the entire issue of the securities that holders desired to sell at auction. Additional information regarding our ARS investment portfolio is detailed in Note 3 to the Consolidated Financial Statements for the period ended June 30, 2009.

We do not believe that future market equity or interest rate risks related to our marketable investments or debt obligations will have a material impact on our results of operations. The Company is not currently invested in any derivative securities.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control. Subject to these limitations, and based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed

Edgar Filing: ACTUATE CORP - Form 10-Q

in the reports Actuate files and submits under the Exchange Act are recorded, processed, summarized and reported as and when required.

Table of Contents

Changes in Internal Controls

There were no changes in Actuate's internal control over financial reporting during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, Actuate's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The Company is engaged in certain legal actions arising in the ordinary course of business, including international employment litigation arising out of restructuring activities. Although there can be no assurance as to the outcome of such litigation, the Company believes that it has adequate legal defenses and that the ultimate outcome of any of these actions will not have a material effect on the Company's financial position or results of operations.

Table of Contents

Item 1A. Risk Factors

Investors should carefully consider the following risk factors and warnings before making an investment decision. The risks described below are not the only ones facing Actuate. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the following risks actually occur, our business, operating results or financial condition could be materially harmed. In such case, the trading price of our common stock could decline and you may lose all or part of your investment. Investors should also refer to the other information set forth in this Report on Form 10-K, including the financial statements and the notes thereto.

THE COMPANY'S OPERATING RESULTS MAY BE VOLATILE AND DIFFICULT TO PREDICT. IF IT FAILS TO MEET ITS ESTIMATES OF FUTURE OPERATING RESULTS OR IT FAILS TO MEET THE EXPECTATIONS OF PUBLIC MARKET ANALYSTS AND INVESTORS, THE MARKET PRICE OF ITS STOCK MAY DECREASE SIGNIFICANTLY.

The susceptibility of the Company's operating results to significant fluctuations makes any prediction, including the Company's estimates of future operating results, difficult. In addition, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and investors should not rely on them as indications of the Company's future performance. The Company's operating results have in the past varied, and may in the future vary significantly due to factors such as the following:

Demand for its products;

The size and timing of significant orders for its products;

A slowdown or a decrease in spending on information technology by its current and/or prospective customers;

Competition from products that are directly competitive with its products;

Lost revenue from introduction or market acceptance of open source products that are directly competitive with its products;

The management, performance and expansion of its international operations;

Foreign currency exchange rate fluctuations;

Customers' desire to consolidate their purchases of RIA, Performance Management and Business Intelligence software to one or a very small number of vendors from which a customer has already purchased software;

General domestic and international economic and political conditions, including war, terrorism, and the threat of war or terrorism;

Sales cycles and sales performance of its indirect channel partners;

Changes in the way it and its competitors price their respective products and services, including maintenance and transfer fees;

Edgar Filing: ACTUATE CORP - Form 10-Q

Continued successful relationships and the establishment of new relationships with OEMs;

Changes in its level of operating expenses and its ability to control costs;

The outcome or publicity surrounding any pending or threatened lawsuits;

Ability to make new products and product enhancements commercially available in a timely manner;

Ability to effectively launch new or enhanced products, including the timely education of the Company's sales, marketing and consulting personnel with respect to such new or enhanced products.;

Customers delaying purchasing decisions in anticipation of new products or product enhancements;

Budgeting cycles of its customers;

Failure to successfully manage its acquisitions;

Defects in its products and other product quality problems;

Failure to successfully meet hiring needs including for qualified professional services employees and unexpected personnel changes;

Changes in the market segments and types of customers at which it focuses its sales and marketing efforts;

Changes in perpetual licensing models to term- or subscription-based models with respect to which license revenue is not fully recognizable at the time of initial sale;

Changes in service models with respect to which consulting services are performed on a fixed-fee, rather than variable fee, basis; and

Potential impairments of Auction Rate Securities (ARS), goodwill, intangibles and other investments.

Table of Contents

Because the Company's software products are typically shipped shortly after orders are received, total revenues in any quarter are substantially dependent on orders booked and shipped throughout that quarter. Furthermore, several factors may require the Company, in accordance with accounting principles generally accepted in the United States, to defer recognition of license fee revenue for a significant period of time after entering into a license agreement, including:

Whether the license agreement includes both software products that are then currently available and software products or other enhancements that are still under development;

Whether the license agreement relates entirely or partly to software products that are currently not available;

Whether the license agreement requires the performance of services that may preclude revenue recognition until successful completion of such services;

Whether the license agreement includes acceptance criteria that may preclude revenue recognition prior to customer acceptance;

Whether the license agreement includes undelivered elements (including limited terms or durations) that may preclude revenue recognition prior to customer acceptance; and

Whether the license agreement includes extended payment terms that may delay revenue recognition until the payment becomes due. In addition, the Company may in the future experience fluctuations in its gross and operating margins due to changes in the mix of its domestic and international revenues, changes in the mix of its direct sales and indirect sales and changes in the mix of license revenues and service revenues, as well as changes in the mix among the indirect channels through which its products are offered.

A significant portion of the Company's total revenues in any given quarter is derived from existing customers. The Company's ability to achieve future revenue growth, if any, will be substantially dependent upon its ability to increase revenues from license fees and services from existing customers, to expand its customer base and to increase the average size of its orders. To the extent that such increases do not occur in a timely manner, the Company's business, operating results and financial condition would be harmed.

The Company's expense levels and any plans for expansion are based in significant part on its expectations of future revenues and are relatively fixed in the short-term. If revenues fall below expectations and the Company is unable to respond quickly by reducing its spending, the Company's business, operating results, and financial condition could be harmed.

The Company often implements changes to its license pricing structure for all of its products including increased prices and modified licensing parameters. If these changes are not accepted by the Company's current customers or future customers, its business, operating results, and financial condition could be harmed.

Based upon all of the factors described above, the Company has a limited ability to forecast the amount and mix of future revenues and expenses and it is likely that at some time, the Company's operating results will fall below its estimates or the expectations of public market analysts and investors. In the event that operating results are below its estimates or other expectations, the price of the Company's common stock is likely to decline.

Table of Contents

THE COMPANY HAS MADE, AND MAY IN THE FUTURE MAKE, ACQUISITIONS, WHICH INVOLVE NUMEROUS RISKS.

The Company's business is highly competitive, and as such, its growth is dependent upon market growth and its ability to enhance its existing products, introduce new products on a timely basis and expand its distribution channels and professional services organization. One of the ways the Company has addressed and will continue to address these issues is through acquisitions of other companies.

Generally, acquisitions involve numerous risks, including the following:

The benefits of the acquisition not materializing as planned or not materializing within the time periods or to the extent anticipated;

The Company's ability to manage acquired entities' people and processes that are headquartered in separate geographical locations from the Company's headquarters;

The possibility that the Company will pay more than the value it derives from the acquisition;

Difficulties in integration of the operations, technologies, and products of the acquired companies;

The assumption of certain known and unknown liabilities of the acquired companies;

Difficulties in retaining key relationships with customers, partners and suppliers of the acquired company;

The risk of diverting management's attention from normal daily operations of the business;

The Company's ability to issue new releases of the acquired company's products on existing or other platforms;

Negative impact to the Company's financial condition and results of operations and the potential write down of impaired goodwill and intangible assets resulting from combining the acquired company's financial condition and results of operations with its financial statements;

Risks of entering markets in which the Company has no or limited direct prior experience; and

The potential loss of key employees of the acquired company.

Mergers and acquisitions of high-technology companies are inherently risky, and the Company cannot be certain that any acquisition will be successful and will not materially harm the Company's business, operating results or financial condition.

INTELLECTUAL PROPERTY CLAIMS AGAINST THE COMPANY CAN BE COSTLY AND COULD RESULT IN THE LOSS OF SIGNIFICANT RIGHTS.

Third parties may claim that the Company's current or future products infringe their intellectual property rights. The Company has been subject to infringement claims in the past and it expects that companies in the Business Intelligence, RIA or Performance Management software market

will increasingly be subject to infringement claims as the number of products and/or competitors in its industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming to defend, result in significant litigation and other expenses, divert management's attention and resources, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all. A successful claim of product infringement against the Company and its failure or inability to license the infringed or similar technology could materially harm the Company's business, operating results and financial condition.

THE COMPANY MAY NOT BE ABLE TO PROTECT ITS SOURCE CODE FROM COPYING.

Source code, the detailed program commands for our operating systems and other software programs, is critical to our business. Although we take significant measures to protect the secrecy of large portions of our source code, unauthorized disclosure or reverse engineering of a significant portion of our source code could make it easier for third parties to compete with our products by copying functionality, which could adversely affect our revenue and operating margins.

IF THE COMPANY FAILS TO GROW REVENUE FROM INTERNATIONAL OPERATIONS AND EXPAND ITS INTERNATIONAL OPERATIONS ITS BUSINESS WOULD BE SERIOUSLY HARMED.

The Company's total revenues derived from sales outside North America were 23%, 30% and 25% for the six months of fiscal years 2009, 2008 and 2007, respectively. Its ability to achieve revenue growth in the future will depend in large part on its success in increasing revenues from international sales. The Company intends to continue to invest significant resources to expand its sales and support operations outside North America and to potentially enter additional international markets. In order to expand international sales, the Company must establish additional foreign operations, expand its international channel management and support organizations, hire additional personnel, recruit additional international resellers and increase the productivity of existing international resellers. The Company intends to continue to shift its focus from direct sales to indirect sales in certain of its international markets in 2009. If it is not successful in expanding international operations in a timely and cost-effective manner, the Company's business, operating results and financial condition could be materially harmed.

Table of Contents

IF THE COMPANY DOES NOT SUCCESSFULLY EXPAND ITS DISTRIBUTION CHANNELS AND DEVELOP AND MAINTAIN RELATIONSHIPS WITH OEMs, ITS BUSINESS WOULD BE SERIOUSLY HARMED.

To date, the Company has sold its products principally through its direct sales force, as well as through indirect sales channels, such as its OEMs, resellers and systems integrators. The Company's revenues from license fees resulting from sales through indirect channel partners were approximately 31%, 33%, and 25% of total revenues from license fees for the six months of fiscal years 2009, 2008 and 2007, respectively. The Company's ability to achieve significant revenue growth in the future will depend in large part on the success of its sales force in further establishing and maintaining relationships with indirect channel partners. In particular, a significant element of the Company's strategy is to embed its technology in products offered by OEMs for resale or as a hosted application to such OEMs' customers and end-users. The Company also intends to establish and expand its relationships with resellers and systems integrators so that such resellers and systems integrators will increasingly recommend its products to their clients. The Company's future success will depend on the ability of its indirect channel partners to sell and support its products. If the sales and implementation cycles of its indirect channel partners are lengthy or variable or its OEMs experience difficulties embedding its technology into their products or it fails to train the sales and customer support personnel of such indirect channel partners in a timely or effective fashion, the Company's business, operating results and financial condition would be materially harmed.

Although the Company is currently investing, and plans to continue to invest, significant resources to expand and develop relationships with OEMs and resellers, it has at times experienced and continues to experience difficulty in establishing and maintaining these relationships. If the Company is unable to successfully expand this distribution channel and secure license agreements with additional OEMs and resellers on commercially reasonable terms, including significant up-front payments of minimum license fees, and extend existing license agreements with existing OEMs on commercially reasonable terms, the Company's operating results would be adversely affected. Any inability by the Company to maintain existing or establish new relationships with indirect channel partners, including systems integrators and resellers, or, if such efforts are successful, a failure of the Company's revenues to increase correspondingly with expenses incurred in pursuing such relationships, would materially harm the Company's business, operating results and financial condition.

THE COMPANY MAY NOT BE ABLE TO COMPETE SUCCESSFULLY AGAINST ITS CURRENT AND FUTURE COMPETITORS.

The Company's market is intensely competitive and characterized by rapidly changing technology, evolving standards and product releases by the Company's competitors that are marketed to compete directly with the Company's products. The Company's competition comes in five principal forms:

Competition from current or future Business Intelligence software vendors such as Information Builders and MicroStrategy, each of which offers reporting products;

Competition from other large software vendors such as IBM, Microsoft, Oracle and SAP, to the extent they sell as separate products or include RIA and Performance Management functionality with their applications or databases;

Competition from other software vendors and software development tool vendors including providers of open-source software products that may develop scalable Business Intelligence, Performance Management and RIA products;

Competition from the IT departments of current or potential customers that may develop scalable Business Intelligence, Performance Management and RIA products internally, which may be cheaper and more customized than the Company's products; and

Competition from BIRT. The Company expects that BIRT, which is free, may in the short term cannibalize some smaller sales of its Business Intelligence and RIA products.

Most of the Company's current and potential competitors have significantly greater financial, technical, marketing and other resources than it does. These competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sales of their products than the Company. Also, most current and potential competitors have greater name recognition and the ability to leverage a significant installed customer base. These companies have released and can continue

Edgar Filing: ACTUATE CORP - Form 10-Q

to release competing Business Intelligence, Performance Management and RIA software products or significantly increase the functionality of their existing software products, either of which could result in a loss of market share for the Company. The Company expects additional competition as other established and emerging companies enter the Business Intelligence, Performance Management and RIA software market and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, longer sales cycles and loss of market share, any of which would harm the Company's business, operating results and financial condition.

Table of Contents

Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to address the needs of the Company's customers. Also, the Company's current or future channel partners may have established in the past, or may in the future, establish cooperative relationships with the Company's current or potential competitors, thereby limiting the Company's ability to sell its products through particular distribution channels. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Such competition could reduce the Company's revenues from license fees and services from new or existing customers on terms favorable to us. If the Company is unable to compete successfully against current and future competitors, the Company's business, operating results and financial condition would be materially harmed.

IF THE MARKET FOR BUSINESS INTELLIGENCE, RIA AND PERFORMANCE MANAGEMENT SOFTWARE DOES NOT GROW AS THE COMPANY EXPECTS, ITS BUSINESS WOULD BE SERIOUSLY HARMED.

The Company cannot be certain that the market for Business Intelligence and RIA and Performance Management software products will continue to grow or that, even if the market does grow, businesses will purchase the Company's products. If the market for Business Intelligence and RIA and Performance Management software products declines, fails to grow or grows more slowly than the Company expects, its business, operating results and financial condition would be harmed. To date, all of the Company's revenues have been derived from licenses for its Business Intelligence and RIA and software and Performance Management related products and services, and it expects this to continue for the foreseeable future. The Company has spent, and intends to continue to spend, considerable resources educating potential customers and indirect channel partners about Business Intelligence and RIA and Performance Management software and its products. However, if such expenditures do not enable its products to achieve any significant degree of market acceptance, the Company's business, operating results and financial condition would be materially harmed.

BECAUSE THE SALES CYCLES OF THE COMPANY'S PRODUCTS ARE LENGTHY AND VARIABLE, ITS QUARTERLY RESULTS MAY FLUCTUATE.

The purchase of the Company's products by its end-user customers for deployment within the customer's organization typically involves a significant commitment of capital and other resources, and is therefore subject to delays that are beyond the Company's control. These delays can arise from a customer's internal procedures to approve large capital expenditures, budgetary constraints, the testing and acceptance of new technologies that affect key operations and general economic and political events. The sales cycle for initial orders and larger follow-on orders for the Company's products can be lengthy and variable. Additionally, sales cycles for sales of the Company's products to OEMs tend to be longer, ranging from 6 to 24 months or more, and may involve convincing the OEMs' entire organization that the Company's products are the appropriate software for their applications. This time period does not include the sales and implementation cycles of such OEMs' own products, which can be longer than the Company's sales and implementation cycles. Certain of the Company's customers have in the past, or may in the future, experience difficulty completing the initial implementation of Actuate's products. Any difficulties or delays in the initial implementation by the Company's end-user customers or indirect channel partners could cause such customers or partners to reject the Company's software or lead to the delay or non-receipt of future orders for the large-scale deployment of its products, in which case the Company's business, operating results and financial condition would be materially harmed.

ADVANCES IN HARDWARE AND SOFTWARE TECHNOLOGY MAY CAUSE OUR SOFTWARE REVENUE TO DECLINE.

In the past, the Company has licensed software for a certain number of processors or CPUs to many of its customers. Advances in hardware technology, including, but not limited to, greater CPU clock speeds, multiple-core processors and virtualization, have afforded software performance gains to some customers, causing them to defer additional software purchases from the Company. The occurrence of any of these events, and other future advances, could seriously harm the Company's business, operating results and financial condition. Use of the Company's software on more advanced hardware than the hardware on which the software was originally installed, without payment of a transfer fee, is prohibited by the terms of applicable license agreements or Company policies. The Company intends to require compliance with such terms. As a result of its enforcement efforts, customers may defer or cease purchasing additional software or maintenance and support. The occurrence of any of these events could materially harm the Company's business, operating results and financial condition.

Table of Contents

IF THE COMPANY IS UNABLE TO FAVORABLY ASSESS THE EFFECTIVENESS OF ITS INTERNAL CONTROL OVER FINANCIAL REPORTING IN FUTURE PERIODS OR IF THE COMPANY'S INDEPENDENT AUDITORS ARE UNABLE TO PROVIDE AN UNQUALIFIED ATTESTATION REPORT ON SUCH ASSESSMENT, THE COMPANY'S STOCK PRICE COULD BE ADVERSELY AFFECTED.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended (Section 404), the Company's management is required to report on, and its independent auditors are required to attest to, the effectiveness of the Company's internal controls over financial reporting on an ongoing basis. The Company's assessment, testing and evaluation of the design and operating effectiveness of its internal control over financial reporting are ongoing. The Company cannot predict the outcome of its testing in future periods. If in future periods the Company concludes that its internal control over financial reporting is not effective, it may be required to change its internal control over financial reporting to remediate deficiencies, and investors may lose confidence in the reliability of its financial statements, causing the Company's stock price to decline significantly.

SECTION 404 AND REGULATORY CHANGES HAVE CAUSED THE COMPANY TO INCUR INCREASED COSTS AND OPERATING EXPENSES, INCLUDING ADDITIONAL COST AND EXPENSES ASSOCIATED WITH HIRING QUALIFIED PERSONNEL TO COMPLY WITH SUCH REGULATORY REQUIREMENT.

The Sarbanes-Oxley Act of 2002 and regulatory changes by the SEC and Nasdaq have caused the Company to incur significant increased costs. In particular, the rules governing the standards that must be met for management to assess its internal controls over financial reporting under Section 404 are complex, and require significant documentation, testing and possible remediation. This ongoing process of reviewing, documenting and testing the Company's internal controls over financial reporting has resulted in, and will likely continue to result in ongoing cost to the Company. Furthermore, achieving and maintaining compliance with Sarbanes-Oxley and other new rules and regulations has and will continue to require the Company to hire additional personnel and to use additional outside legal, accounting and advisory services.

In addition, any acquisitions made by the Company will also put a significant strain on its management, information systems and resources. Any expansion of the Company's international operations will lead to increased financial and administrative demands associated with managing its international operations and managing an increasing number of relationships with foreign partners and customers and expanded treasury functions to manage foreign currency risks, all of which will require the Company to incur additional cost to implement necessary changes to maintain effective internal controls over financial reporting.

IF THE COMPANY DOES NOT RESPOND TO RAPID TECHNOLOGICAL CHANGES, ITS PRODUCTS COULD BECOME OBSOLETE.

The market for the Company's products is characterized by rapid technological changes, frequent new product introductions and enhancements, changing customer demands, and evolving industry standards. Any of these factors can render existing products obsolete and unmarketable. The Company believes that its future success will depend in large part on its ability to support current and future releases of popular operating systems and computer programming languages, databases and software applications, to timely develop new products that achieve market acceptance and to meet an expanding range of customer requirements. If the announcement or introduction of new products by the Company or its competitors or any change in industry standards causes customers to defer or cancel purchases of existing products, the Company's business, operating results and financial condition would be harmed.

As a result of the complexities inherent in Business Intelligence, RIA and Performance Management software, major new products and product enhancements can require long development and testing periods. In addition, customers may delay their purchasing decisions in anticipation of the general availability of new or enhanced versions of the Company's products. As a result, significant delays in the general availability of such new releases or significant problems in the installation or implementation of such new releases could harm the Company's business, operating results and financial condition. If the Company fails to successfully develop, on a timely and cost effective basis, product enhancements or new products that respond to technological change, evolving industry standards or customer requirements or such new products and product enhancements fail to achieve market acceptance, the Company's business, operating results and financial condition would be harmed.

IF THE COMPANY DOES NOT RELEASE NEW PRODUCTS AND ENHANCEMENTS TO EXISTING PRODUCTS IN A TIMELY MANNER OR IF SUCH NEW PRODUCTS AND ENHANCEMENTS, INCLUDING THE COMPANY'S OPEN SOURCE PROJECT, FAIL TO ACHIEVE MARKET ACCEPTANCE, THE COMPANY'S BUSINESS COULD BE SERIOUSLY HARMED.

The Company believes that its future success will depend in large part on the success of new products and enhancements to its products that it makes generally available. Prior to the release of any new products or enhancements, the products must undergo a long development and testing period. To date, the development and testing of new products and enhancements have taken longer than expected. In the event the development

and testing of new products and enhancements continue to take longer than expected, the

Table of Contents

release of new products and enhancements will be delayed. If the Company fails to release new products and enhancements in a timely manner, its business, operating results and financial condition would be harmed. In addition, if such new products and enhancements do not achieve market acceptance, the Company's business, operating results and financial condition would be harmed.

The Company has developed a BIRT open source product through its involvement in the Eclipse Foundation. The Company hopes that BIRT and a commercialized version of BIRT will be widely adopted by Java developers and will result in such developers recommending to their employees and customers that they license the Company's commercially available products. If BIRT does not achieve market acceptance and result in promoting sales of commercially available products, the Company's business, operating results and financial condition may be harmed.

THE SUCCESS OF THE COMPANY'S OPEN-SOURCE BIRT INITIATIVE IS DEPENDENT ON BUILDING A DEVELOPER COMMUNITY AROUND BIRT.

The success of the Company's BIRT initiative is dependent on the open source contributions of third-party programmers and corporations, and if they cease to make these contributions to the Eclipse open source project, the BIRT project, or the general open source movement, the Company's BIRT product strategy could be adversely affected. If key members, or a significant percentage, of this group of developers or corporations decides to cease development of Eclipse, BIRT or other open source applications, the Company would have to either rely on another party (or parties) to develop these technologies, develop them itself or adapt its open source product strategy accordingly. This could increase the Company's development expenses, delay its product releases and upgrades or adversely impact customer acceptance of open source offerings.

THE COMPANY'S INTERNATIONAL OPERATIONS ARE SUBJECT TO SIGNIFICANT RISKS.

A substantial portion of the Company's revenues is derived from international sales. International operations and sales are subject to a number of risks, any of which could harm the Company's business, operating results and financial conditions. These risks include the following:

Economic and political instability, including war and terrorism or the threat of war and terrorism;

Difficulty of managing an organization spread across many countries;

Multiple and conflicting tax laws and regulations;

Costs of localizing products for foreign countries;

Difficulty in hiring employees and difficulties and high costs associated with terminating employees and restructuring operations in foreign countries;

Trade laws and business practices favoring local competition;

Dependence on local vendors;

Increasing dependence on resellers in certain geographies;

Compliance with multiple, conflicting and changing government laws and regulations;

Weaker intellectual property protection in foreign countries and potential loss of proprietary information due to piracy or misappropriation;

Longer sales cycles;

Import and export restrictions and tariffs;

Difficulties in staffing and managing foreign operations;

The significant presence of some of our competitors in certain international markets;

Greater difficulty or delay in accounts receivable collection; and

Foreign currency exchange rate fluctuations.

The Company believes that, over time, an increasing portion of its revenues and costs will be denominated in foreign currencies. To the extent such denomination in foreign currencies does occur, gains and losses on the conversion to U.S. dollars of accounts receivable, accounts payable and other monetary assets and liabilities arising from international operations may contribute to fluctuations in the Company's results of operations. Although the Company may in the future decide to undertake foreign exchange hedging transactions to cover a portion of its foreign currency transaction exposure, it currently does not attempt to cover any foreign currency exposure. If it is not effective in any future foreign exchange hedging transactions in which it engages, the Company's business, operating results and financial condition could be materially harmed.

Table of Contents

THE COMPANY'S EXECUTIVE OFFICERS AND CERTAIN KEY PERSONNEL ARE CRITICAL TO ITS BUSINESS AND IT MAY NOT BE ABLE TO RECRUIT AND RETAIN THE PERSONNEL IT NEEDS.

The Company's future success depends upon the continued service of its executive officers and other key engineering, sales, marketing and customer support personnel. None of its officers or key employees is bound by an employment agreement for any specific term. If the Company loses the service of one or more of its key employees, or if one or more of its executive officers or key employees decide to join a competitor or otherwise compete directly or indirectly with it, it could have a significant adverse effect on the Company's business.

In addition, because experienced personnel in the Company's industry are in high demand and competition for their talents is intense, the Company has relied on its ability to grant stock options as one mechanism for recruiting and retaining this highly skilled talent. Accounting standards require the expensing of stock options, which impairs the Company's ability to provide these incentives without incurring significant compensation costs. There can be no assurance that the Company will continue to successfully attract and retain key personnel in the future.

CHANGES IN OR INTERPRETATIONS OF, ACCOUNTING STANDARDS COULD RESULT IN UNFAVORABLE ACCOUNTING CHARGES.

The Company prepares its Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting standards. The Company's accounting policies that recently have been or may be affected by changes in the accounting rules are as follows:

Software revenue recognition;

Accounting for income taxes;

Accounting for business combinations and related goodwill;

Accounting for stock issued to employees; and

Assessing fair value of financial and non-financial assets.

A change in accounting standards applicable to us can have a significant effect on the Company's reported results and may even retroactively affect previously reported transactions.

THE COMPANY MAY BE UNABLE TO SUSTAIN OR INCREASE ITS PROFITABILITY.

While the Company was profitable in its last five fiscal years, it incurred net losses during fiscal year 2003 and 2002. Its ability to sustain or increase profitability on a quarterly or annual basis will be affected by changes in its business. It expects its operating expenses to increase as its business grows, and it anticipates that it will make investments in its business. Therefore, the Company's results of operations will be harmed if its revenues do not increase at a rate equal to or greater than increases in its expenses or are insufficient for it to sustain profitability.

IF THE COMPANY OVERESTIMATES REVENUES, IT MAY BE UNABLE TO REDUCE ITS EXPENSES TO AVOID OR MINIMIZE A NEGATIVE IMPACT ON ITS RESULTS OF OPERATIONS.

The Company's revenues are difficult to forecast and are likely to fluctuate significantly from period to period. The Company bases its operating expense budgets on expected revenue trends. The Company's estimates of sales trends may not correlate with actual revenues in a particular quarter or over a longer period of time. Variations in the rate and timing of conversion of the Company's sales prospects into actual licensing revenues could cause it to plan or budget inaccurately and those variations could adversely affect the Company's financial results. In particular, delays, reductions in amount or cancellation of customers' purchases would adversely affect the overall level and timing of the Company's revenues and its business, results of operations and financial condition could be harmed. In addition, many of its expenses, such as office and

Edgar Filing: ACTUATE CORP - Form 10-Q

equipment leases and certain personnel costs, are relatively fixed. It may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause a material variation in operating results in any period.

IF THE COMPANY'S PRODUCTS CONTAIN MATERIAL DEFECTS, ITS REVENUES MAY DECLINE.

Software products as complex as those offered by the Company often contain errors or defects, particularly when first introduced, when new versions or enhancements are released and when configured to individual customer computing systems. The Company currently has known errors and defects in its products. Despite testing conducted by the Company, if additional defects and errors are found in current versions, new versions or enhancements of its products after commencement of commercial shipment, or if such errors or defects cannot be cured or repaired timely, it could result in the loss of revenues or a delay in market acceptance or an increase in the rate of return of the Company's products. The occurrence of any of these events could materially harm the Company's business, operating results and financial condition.

Table of Contents

THE COMPANY MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS.

Although license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims, it is possible that such limitation of liability provisions may not be effective as a result of existing or future laws or unfavorable judicial decisions. The sale and support of the Company's products may entail the risk of such claims, which are likely to be substantial in light of the use of its products in business-critical applications. A product liability claim brought against the Company could materially harm its business, operating results and financial condition.

THE PROTECTION OF OUR PROPRIETARY RIGHTS MAY BE INADEQUATE.

The Company has a small number of issued and pending U.S. patents expiring at varying times ranging from 2015 to 2020. The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary technology. For example, the Company licenses its software pursuant to click-wrap or signed license agreements that impose certain restrictions on licensees' ability to utilize the software. In addition, the Company seeks to avoid disclosure of its intellectual property, including by requiring those persons with access to its proprietary information to execute confidentiality agreements with the Company and by restricting access to its source code. The Company takes precautions to protect our software, certain documentation, and other written materials under trade secret and copyright laws, which afford only limited protection.

Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of its products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while it is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of many countries do not protect the Company's proprietary rights to as great an extent as do the laws of the United States. If the Company's means of protecting its proprietary rights is not adequate or its competitors independently develop similar technology, the Company's business could be materially harmed.

THE COMPANY'S COMMON STOCK PRICE MAY BE VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR STOCKHOLDERS.

The market price of shares of the Company's common stock has been and is likely to continue to be highly volatile and may be significantly affected by factors such as the following:

Actual or anticipated fluctuations in its operating results;

Changes in the economic and political conditions in the United States and abroad;

Terrorist attacks, war or the threat of terrorist attacks and war;

The announcement of mergers or acquisitions by the Company or its competitors;

Developments in ongoing or threatened litigation;

Announcements of technological innovations;

Failure to comply with the requirements of Section 404 of the Sarbanes-Oxley Act;

Edgar Filing: ACTUATE CORP - Form 10-Q

New products, including open source products, or new contracts announced by it or its competitors;

Developments with respect to copyrights or proprietary rights;

Price and volume fluctuations in the stock market;

Changes in corporate purchasing of Business Intelligence, RIA and Performance Management software;

Adoption of new accounting standards affecting the software industry; and

Changes in financial estimates by securities analysts.

In addition, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against such companies. If the Company is involved in such litigation, it could result in substantial costs and a diversion of management's attention and resources and could materially harm the Company's business, operating results and financial condition.

CHANGES IN CORPORATE INCOME TAX LAWS, INCOME TAX RATES OR NEGATIVE INCOME TAX RULINGS COULD ADVERSELY IMPACT THE COMPANY'S FINANCIAL RESULTS.

The Company is taxable principally in the United States and certain jurisdictions in Europe and Asia/Pacific. All of these jurisdictions have in the past and may in the future make changes to their corporate income tax laws and/or corporate income tax rates, which could increase or decrease the Company's future income tax provision. While the Company believes that all material income

Table of Contents

tax liabilities are reflected properly in its Consolidated Balance Sheet, it has no assurance that it will prevail in all cases in the event the taxing authorities disagree with its interpretations of the tax law. Future levels of research and development spending will impact the Company's entitlement to related tax credits, which generally lower its effective income tax rate. Future effective income tax rates could be adversely affected if tax laws are enacted that are targeted to eliminate the benefits of the Company's tax structure and if its earnings are lower than anticipated in jurisdictions where the Company has statutory tax rates lower than tax rates in the United States or other higher tax jurisdictions.

CERTAIN OF THE COMPANY'S CHARTER PROVISIONS AND DELAWARE LAW MAY PREVENT OR DETER A CHANGE IN CONTROL OF ACTUATE.

The Company's Certificate of Incorporation, as amended and restated (the "Certificate of Incorporation"), and Bylaws, as amended and restated ("Bylaws"), contain certain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals that a stockholder might consider favorable, including provisions authorizing the issuance of blank check preferred stock, eliminating the ability of stockholder to act by written consent and requiring stockholders to provide advance notice for proposals and nomination of directors at stockholder meetings. In addition, certain provisions of Delaware law and the Company's stock option plans may also have the effect of discouraging, delaying or preventing a change in control or unsolicited acquisition proposals. The Company has also entered into change of control agreements with its executive officers, which agreements require payment to an executive upon termination of employment within 12 months after acquisition. The anti-takeover effect of these provisions may also have an adverse effect on the public trading price of the Company's common stock.

DEPENDENCE ON THE FINANCIAL SERVICES INDUSTRY COULD SIGNIFICANTLY AFFECT THE COMPANY'S REVENUES.

A significant portion of the Company's revenues are derived from customers in the financial services industry and the Company expects it will continue to derive a significant portion of its revenues from these customers for the foreseeable future. Accordingly, unfavorable economic conditions adversely impacting the financial services industry has had a material adverse effect on the Company's business, financial condition and results of operations. For example, the financial services industry has experienced and may continue to experience cyclical fluctuations in profitability, which may affect timing of, or actual purchases of, the Company's products which would have a material adverse effect on the Company's business, financial condition and results of operations.

IF THE RECENT CREDIT MARKET CONDITIONS CONTINUE OR DETORiate FURTHER, IT COULD HAVE A MATERIAL ADVERSE IMPACT ON OUR INVESTMENT PORTFOLIO.

Recent U.S. sub-prime mortgage defaults have had a significant impact across various sectors of the financial markets, causing global credit and liquidity issues. The short-term funding markets experienced credit issues throughout fiscal year 2008. This led to liquidity disruption in asset-backed commercial paper and failed auctions in the auction rate market. If the global credit market continues to deteriorate, our investment portfolio may be impacted and we could determine that some of our investments are other than temporarily impaired. This could have a material adverse impact on our results of operations and financial condition.

Our investment portfolio includes Auction Rate Securities ("ARS") which are investments with contractual maturities. They are usually found in the form of municipal bonds, a pool of student loans or collateralized debt obligations whose interest rates are subject to reset through an auction process. The ARS held by us are primarily backed by highly rated municipal issuers.

As of June 30, 2009, the Company had approximately \$16.4 million in ARS at par value. Since February 2008, substantially all auctions for ARS have failed as a result of the negative overall capital market conditions, meaning that there is not enough demand to sell the securities at auction. While the Company continues to earn interest on its ARS investments at the maximum contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value.

In November 2008, the Company elected to participate in a rights offering by UBS, the Company's investment broker, which provides Actuate with rights (the "Put Option") to sell UBS \$16.4 million of its ARS portfolio at par value, at any time during a two-year sale period beginning June 30, 2010. By electing to participate in the rights offering, the Company granted UBS the right, exercisable at any time prior to June 30, 2010 or during the two-year sale period, to purchase or cause the sale of our ARS (the "Call Right"). UBS has stated that it will only exercise the Call Right for the purpose of restructurings, dispositions or other solutions that will provide their clients with par value for their ARS. UBS has agreed to pay their clients the par value of their ARS within one day of settlement of any Call Right transaction. Notwithstanding the Call Right, the Company is permitted to sell ARS to parties other than UBS, in which case the Put Option attached to the ARS that are sold would be extinguished. At June 30, 2009 the Company has valued the Put Option at the present value of the difference between the fair market value and the par value of the ARS.

Edgar Filing: ACTUATE CORP - Form 10-Q

At June 30, 2009, the Company has classified the ARS and the related Put Option as current investments on its Consolidated Balance Sheet. This classification was based on the intent and ability of the Company to sell the ARS back to UBS as soon as the Put Option allows, which is currently expected to be June 30, 2010. In prior quarters, the ARS were classified as long-term investments because of the Company's inability to determine when its investments in the ARS would settle, and the fact that the exercisability date of the Put Option exceeded 365 days.

Table of Contents

The Company has no reason to believe that any of the underlying issuers of its ARS are presently at risk of default. Through June 30, 2009, the Company has continued to receive interest payments on the ARS in accordance with their terms. Currently, interest is being earned at the maximum contractual rate, which may not exceed the one year trailing average rate on the three month Treasury Bill plus 120 basis points. The Company believes that it will ultimately be able to liquidate its ARS related investments without significant loss primarily due to the collateral securing the ARS and the legal settlement it has entered into with UBS. However, it could take until final maturity of the ARS (up to 38 years) to realize the investments par value.

If we need to access the funds associated with ARS but are unable to do so, our operations and financial position could be materially harmed.

WE HAVE SUBSTANTIAL INDEBTNESS AND DEBT SERVICE REQUIREMENTS.

On November 2, 2008, Actuate entered into a four year revolving line of Credit Agreement with Wells Fargo Foothill, LLC (*Wells Fargo*) as the arranger, administrative agent and lender (the *Credit Agreement*). The Credit Agreement was effective as of November 3, 2008. The Company used \$30.0 million of the proceeds from the Credit Agreement in the tender offer it completed in December 2008 and for working capital, issuance of commercial and standby letters of credit, capital expenditures and other general corporate purposes. At June 30, 2009, our outstanding debt under the Credit Agreement was \$30 million.

The Credit Agreement allows for cash borrowings and letters of credit under a secured revolving credit facility of up to a maximum of \$50.0 million, but in any event not to exceed 80% of the Company's Trailing Recurring Revenue (as defined in the Credit Agreement). Interest will accrue based on a floating rate based on, at the Company's election, (i) LIBOR or (ii) the greater of (a) the Federal Funds Rate plus an applicable margin or (b) Wells Fargo's prime rate, in each case, plus an applicable margin based on the outstanding balance of the amount drawn down under the Credit Agreement. If the Company's borrowings and letter of credit usage plus any bank product reserves established by Wells Fargo exceeds 80% of its Trailing Recurring Revenue (as defined in the Credit Agreement), or if the sum of available funds under the Credit Agreement plus Qualified Cash (as defined in the Credit Agreement) is less than \$10,000,000, the Company will be required to meet certain EBITDA targets and be subject to a limit on annual capital expenditures, subject to a cure mechanism described in the Credit Agreement. The Company is required to make interest payments and pay an unused commitment fee on a monthly basis. The Credit Agreement includes limitations on the Company's ability to incur debt, grant liens, make acquisitions, make certain restricted payments such as dividend payments, and dispose of assets. The events of default under the Credit Agreement include payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events. In the case of a continuing event of default, the lenders under the Credit Agreement may, among other remedies, eliminate their commitments to make credit available, declare due all unpaid principal amounts outstanding, and require cash collateral for any letter of credit obligations and foreclose on all collateral.

Because of our indebtedness, a significant portion of our cash flow from operations is and will be required for debt service. Our levels of debt could have negative consequences for us. You should note that:

a substantial portion of our cash flow is, and will be, dedicated to debt service and is not, and will not be, available for other purposes;

our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate or other purposes may be impaired in the future;

certain of our borrowings are, and will be, at variable rates of interest, which may expose us to the risk of increases in interest rates; and

our level of indebtedness could make us more vulnerable to economic downturns, limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions.

We believe that cash flows from operations will be sufficient to meet our current debt service requirements for interest and any required prepayments under the Credit Agreement. However, if such cash flow is not sufficient, we may be required to issue additional debt or equity securities, refinance our obligations, or take other actions in order to make such scheduled payments. We cannot be sure that we would be able to effect any such transactions on favorable terms, if at all. Failure to do so may cause an event of default under the Credit Agreement, which

will have a material adverse effect on our business, operating results and financial conditions.

OUR DEBT COVENANTS RESTRICT OUR FINANCIAL AND OPERATIONAL FLEXIBILITY.

As discussed above, the Credit Agreement contains a number of financial covenants, which, among other things, require us to maintain specified financial ratios and impose certain limitations on us with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. Our ability to meet the financial ratios can be

Table of Contents

affected by operating performance or other events beyond our control, and we cannot assure you that we will meet those ratios and failure to do so may cause an event of default under the Credit Agreement. Our indebtedness under the Credit Agreement is secured by a lien on substantially all of our assets and of our subsidiaries, by a pledge of our operating and license subsidiaries' stock and by a guarantee of our subsidiaries. If the amounts outstanding under the Credit Agreement were accelerated due to an event of default, the lenders could proceed against such available collateral by forcing the sales of these assets.

Item 4. Submission of Matters to a Vote of Security Holders

At our Annual Meeting of Stockholders held on May 21, 2009, our stockholders approved the following items:

1. The election of the following individuals as Directors of the Company.

	For	Authority Withheld
Nicolas C. Nierenberg	39,111,537	2,764,456
Peter I. Cittadini	39,808,418	2,067,575
George B. Beitzel	37,992,944	3,883,049
Kenneth E. Marshall	38,704,649	3,171,344
Arthur C. Patterson	39,115,296	2,760,697
Steven D. Whiteman	39,113,130	2,762,863

2. The ratification of the appointment of KPMG, LLP, Registered Independent Public Accountants, as the Company's auditors for the fiscal year ending December 31, 2009.

For	41,193,785
Against	587,159
Abstain	95,049

Item 6. Exhibits

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
- 32.1 Section 1350 Certifications

Signature

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

Actuate Corporation
(Registrant)

Dated: August 7, 2009

By: /s/ DANIEL A. GAUDREAU
Daniel A. Gaudreau
Senior Vice President,

Edgar Filing: ACTUATE CORP - Form 10-Q

Operations and Chief Financial Officer
(Principal Financial and Accounting Officer)

47