

ACTUATE CORP
Form 10-K
March 13, 2006
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

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 number: 0-24607

ACTUATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

94-3193197
(I.R.S. Employer Identification No.)

701 Gateway Boulevard
South San Francisco, California 94080

(Address of principal executive offices)

(650) 837-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Edgar Filing: ACTUATE CORP - Form 10-K

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

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

Common Stock, \$0.001 par value

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$79,385,593 based on the closing sale price as reported on the Nasdaq National Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Edgar Filing: ACTUATE CORP - Form 10-K

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

Class	Outstanding at February 28, 2006
Common Stock, \$0.001 par value	60,097,225

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to specified portions of the registrant's definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission not later than 120 days after the Registrant's fiscal year ended December 31, 2005.

Table of Contents

**Annual Report on Form 10-K
for the fiscal year ended December 31, 2005**

TABLE OF CONTENTS

	Page
<u>PART I</u>	1
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments.</u>	22
Item 2. <u>Properties</u>	23
Item 3. <u>Legal Proceedings</u>	23
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	23
<u>PART II</u>	24
Item 5. <u>Market for Registrant's Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	24
Item 6. <u>Selected Financial Data</u>	25
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 8. <u>Financial Statements and Supplementary Data</u>	45
Item 9. <u>Changes In And Disagreements With Accountants On Accounting And Financial Disclosures</u>	45
Item 9A. <u>Controls and Procedures</u>	46
Item 9B. <u>Other Information</u>	47
<u>PART III</u>	48
Item 10. <u>Directors and Executive Officers of the Registrant</u>	48
Item 11. <u>Executive Compensation</u>	48
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	48
Item 13. <u>Certain Relationships and Related Transactions</u>	49
Item 14. <u>Principal Accountant Fees and Services</u>	49
<u>PART IV</u>	50
Item 15. <u>Exhibits and Financial Statement Schedules</u>	50
<u>SIGNATURES</u>	52

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this report on Form 10-K under Business, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere constitute forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. Forward-looking statements include statements regarding Actuate's expectations, beliefs or strategies regarding the future. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those listed under Risk Factors and elsewhere in this Report on Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements contained in this Report on Form 10-K after the date hereof or to conform such statements to actual results. Readers are cautioned not to place undue reliance on forward-looking statements and should carefully review the risk factors described in other documents Actuate files from time to time with the Securities and Exchange Commission, including current reports on Form 8-K and quarterly reports on Form 10-Q filed by Actuate during 2006.

PART I

ITEM 1. BUSINESS

Overview

Actuate Corporation (We, Actuate or the Company) provides software and services for Enterprise Reporting and Performance Management Applications. Actuate's Enterprise Reporting Application Platform is a unified software platform that enables large organizations and packaged application software vendors to develop and deploy self-service, customer and employee-facing Enterprise Reporting Applications. Enterprise Reporting Applications are intuitive, Web portal-like reporting applications that empower 100% of users with decision-making information. The application experience is designed to fit seamlessly into the way in which individuals work, providing a readily accessible way for users to receive highly relevant information that is usable, dependable, and timely. Enterprise Reporting Applications allow organizations to gain real-time operational visibility, improve customer profitability, and distribute accountability throughout the organization. Our goal is to ensure that 100% of users adopt decision-making information into their day-to-day activities, opening up completely new avenues for improving corporate performance. With 100% user adoption of information, organizations can more easily grow revenues, improve service quality, control expenses, meet regulatory requirements, and increase efficiency.

Our Actuate 8 product line provides a platform upon which Global 9000 organizations (companies with annual revenues greater than \$1 billion) and packaged application software vendors develop and deploy mission-critical Enterprise Reporting Applications. Such Applications retrieve business information from corporate databases and deliver it as interactive Web pages, Excel spreadsheets, and analytic cubes to customers, partners and employees around the globe. Our products and services are used by our customers to develop and deploy Enterprise Reporting Applications across a range of business functions including financial management, sales management, account management, and customer self-service. Actuate 8 is a comprehensive platform that can be seamlessly integrated into any enterprise IT infrastructure and consists of a highly scalable and reliable Enterprise Reporting server and a robust development environment for building Enterprise Reporting Applications of any scale. Actuate 8's powerful development architecture allows developers to create content from virtually any data source and present it in virtually any format required by users.

Edgar Filing: ACTUATE CORP - Form 10-K

In January 2006, Actuate acquired performancesoft, Inc., of Toronto, Ontario, Canada, a privately held provider of Performance Management Solutions software and services (performancesoft). performancesoft

Table of Contents

pbviews 7.0 has been designed specifically to address real-life Performance Management situations. With a simple-to-use web interface, users across the enterprise have access to relevant Performance Management information to help them make the right decisions. The combination of performancesoft's leading Performance Management applications and Actuate's Enterprise Reporting Application platform provides capabilities for distributing accountability throughout the enterprise. Our customers are now able to quickly build and deploy rich, intuitive and easy to use Performance Management applications that offer managers at all levels the ability to drill-through from executive level information to real-time operational details, resulting in heightened management effectiveness and breakthrough corporate performance throughout the enterprise.

Actuate was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998. Actuate's principal executive offices are located at 701 Gateway Boulevard, South San Francisco, California. Actuate's telephone number is 650-837-2000. Actuate maintains a Web site at www.actuate.com. The information posted on the Web site is not incorporated into this Annual Report.

Industry Background

The emergence and acceptance of as well as the dependence on the Internet have fundamentally changed the way that consumers and businesses communicate, obtain information, purchase goods and transact business. Through the frequent and widespread usage of the Internet, users have developed a new set of expectations for accessing relevant and timely information.

While these new user expectations have been developing, organizations have been striving to improve corporate performance. A common strategy for improving performance has been to better leverage the information captured by applications that have been implemented to manage business process such as sales, service, finance, manufacturing and human resources. Organizations have been seeking to use the captured data to make informed decisions regarding both day-to-day operations and high-level strategies. These efforts have been largely unsuccessful due to the disruptive nature of traditional business intelligence tools used to access and analyze this data. Because these tools demand that users invest time and effort in learning new interfaces, user adoption has been low, and as a consequence, use of decision-making information throughout the organization has been limited.

In order to achieve 100% user adoption of decision-making information, and reap the resulting benefits in corporate performance, organizations are turning to developing and deploying Enterprise Reporting and Performance Management Applications. These Enterprise Reporting and Performance Management Applications eliminate the traditional obstacles to user adoption by providing decision-making information through intuitive, Web portal-like interfaces that satisfy new user expectations for information accessibility and relevance.

The Actuate Solution

Actuate 8 is a unified software platform for developing and deploying Enterprise Reporting Applications. The platform features a development architecture that is flexible enough to meet every user requirement for intuitively accessible and personalized information. Actuate 8 provides the industry's first real-time Enterprise Reporting Application Platform with integrated Enterprise Information Integration (EII) for developing and deploying Enterprise Reporting Applications. Actuate 8 features a deployment architecture that is scalable enough to serve 100% of the user population throughout the enterprise and beyond. Actuate's Enterprise Reporting Application Platform consists of:

A set of products that provide Web pages, Microsoft Excel spreadsheets, and analytic cubes to users with an intuitive, Web-portal like experience for accessing and interacting with decision-making information (e.Report Option, e.Report Designer, e.Spreadsheet

Edgar Filing: ACTUATE CORP - Form 10-K

Option, e.Spreadsheet Designer, e.Analysis Option, Actuate Query, and Actuate Analytics Option);

A comprehensive development environment to build, integrate, and maintain the core data access and reporting infrastructure of Enterprise Reporting Applications (e.Report Designer Professional, e.Spreadsheet Designer, Information Object Designer, and Analytics Designer); and

Table of Contents

A unified metadata layer, which improves the overall accuracy of information analysis and is accessible by all products within Actuate's Platform.

Actuate 8's key benefits include:

Increased user satisfaction and reduced support and training costs due to a zero-training analysis and reporting experience for users that leverages their existing expertise and skill sets;

Reduced hardware and maintenance costs for serving the information needs of large numbers of users due to a highly scalable information server;

Flexibility to meet all user requirements through powerful, programmatically extensible tools for developers;

Reduced development and maintenance costs due to a true, object-oriented development framework;

Flexibility to integrate with any software infrastructure through a complete Web services application programming interface;

Operational visibility that is dramatically improved through an EII option that supports the real-time integration of disparate data sources including ERP and CRM applications, data warehouses, legacy systems and other XML-based data sources;

Information Objects that present a sharable, reusable business-friendly data abstraction layer that allows IT to quickly create complex distributed queries that deliver operational information in real-time to all users across the enterprise;

New adoption monitoring capabilities that track usage of the system and enable customers to monitor progress towards 100% user adoption of their Enterprise Reporting Applications and identify the reports and analyses that are most and least useful to users;

e.Spreadsheet Cell Locking capability that enables companies to distribute live spreadsheets containing formulas and graphs that enable immediate what-if analysis while also protecting specified cells against alteration; and

e.Spreadsheet Matrix Script functionality that allows companies to easily generate live Excel spreadsheet reports that display hierarchical performance data based on any dimension, including geography, organizational structure, time or any other arbitrary dimensions specific to a business. It also enables the creation of spreadsheet reports that dynamically adjust based on the value of key metrics, providing users with immediate visibility into information that requires their attention,

performancesoft pbviews 7.0 provides an end-to-end solution that is streamlined and simple for organizations to gain a holistic view of true performance. pbviews 7.0 introduced a host of enhanced design elements to improve the user experience and deliver Performance Management information in an easy to understand format. An improved Home Page portal interface, an enhanced data entry screen, and a fully streamlined navigation pane are some of the ways that pbviews 7.0 has improved on its easy to use solution. From a user perspective, accessing pbviews 7.0 is as simple as visiting a web page hyperlink, while from the IT management perspective, a single copy of pbviews 7.0 is loaded to the associated server, helping to streamline deployment for a more cost effective solution. In addition, all functionality of pbviews 7.0 is web enabled, including data administration.

Strategy

Our strategy is to be the leading provider of Enterprise Reporting and Performance Management solutions. Key elements of our strategy include:

Expand Market Leadership Position through Strategic Relationships. We believe that we have established a leading position in the market for Enterprise Reporting and Performance Management Applications.

Table of Contents

To accelerate the adoption of Actuate 8 as the standard Enterprise Reporting Application platform for Global 9000 companies, we have established strategic relationships with leading software application vendors, systems integrators, consulting firms and development partners. We intend to further develop our existing strategic relationships and enter into new partnerships to expand our market presence and leadership. Similarly, the performancesoft Alliance Program provides the essential development, marketing, sales, and support benefits to Solutions Partners (system integrators and specialized Performance Management consultants) as well as Technology Partners and Value Added Resellers (Platforms, Operating Systems Vendors, Independent Software Vendors and Application Service Providers).

Extend Technology Leadership. Since inception, we have focused our research and development efforts on developing core technologies that address the requirements of developing and deploying Enterprise Reporting Applications. Our products integrate a number of advanced technologies, including a patented method of providing page level security in a report, LDAP integration, advanced viewing technology incorporating Java, PDF, DHTML, Unicode, XML, and Web services, a patented method of storing report objects, a multi-tier architecture, Web access and delivery technology, EII data access technology and patent-pending spreadsheet technology. In addition, we have in the past rapidly incorporated new technology into our product offerings. We believe that we provide a leading Enterprise Reporting Application Platform technology and we intend to extend this leadership position by continuing to devote significant resources to research and development efforts, and by acquiring and integrating complementary technologies.

Broaden Distribution Channels. To date, our products have been sold worldwide by our direct sales force and through our software application vendors, original equipment manufacturers (OEMs), resellers, and systems integrators. We intend to continue expanding our direct sales force and telesales capability. In addition, we intend to continue to leverage and grow our existing network of OEMs, systems integrators, and resellers and expand our indirect distribution channel worldwide.

Focus on Key Application Areas. Our technology is uniquely suited to meet customer requirements for Enterprise Reporting and Performance Management Applications for specific business functions such as financial management, customer self-service, sales management and account management. We intend to continue to focus on these areas within our sales and marketing functions as well as provide more complete customer solutions through targeted partnering and technology development.

Leverage e.Services Capabilities. We have established successful relationships with our customers by serving as an advisor in developing and deploying Enterprise Reporting and Performance Management Applications. We are extending our direct e.Services capabilities to provide an expanded set of services to address areas such as Enterprise Reporting Application development strategy, project management, security integration and application design. In addition, we offer similar high-quality professional services capabilities through third-party alliances and are currently focused on the development of relationships with global and national systems integrators. By offering our clients a full range of e.Services on a global basis, we believe that we can broaden market awareness about the advantages of our Enterprise Reporting Application platform and create opportunities to sell new or additional products to clients.

Increase International Presence. We plan to increase our international operations. Outside North America, we have established subsidiaries in a number of countries and have reseller relationships throughout Europe, and the Asia/Pacific region. We have localized versions of our products in French, German, Spanish, and Japanese and we also support Chinese, Korean, and right-to-left reporting. We intend to expand our international operations by increasing our international sales force, expanding our indirect distribution channels worldwide and by continuing the localization of our products in selected markets.

Products and Technology

Edgar Filing: ACTUATE CORP - Form 10-K

Actuate 8 is a unified software platform for developing and deploying Enterprise Reporting Applications. Enterprise Reporting Applications provide decision-making information with the simplicity, consistency, and

Table of Contents

relevance necessary for adoption by 100% of users, both inside and outside the firewall. In the case of direct sales to end user customers, our products have been typically priced on either a per CPU basis or on a per named user basis. Our development products are typically priced on a per named user basis. Indirect sales are usually either fixed price, unlimited usage arrangements, or arrangements where royalties are paid to us based on sell through to end-users.

The following table sets forth the primary products that comprise Actuate 8:

Actuate Products	Product Description
Actuate iServer	Scalable information server for generating, managing, and securely delivering reporting and analytic content that is adopted by 100% of an organization's users.
Actuate Query Option	Web-based query tool for end-users of all levels of computing sophistication.
Actuate Analytics Option	Server option that provides Web-based Online Analytical Processing (OLAP) capabilities to power users, business analysts, and management.
Actuate Data Integration Option	Server option licenses Information Objects deployed on the server to combine data from two or more disparate data sources.
Actuate e.Report Option	Server option for generating enterprise reports for employees, customers, and business partners in browser-based Web formats.
Actuate e.Spreadsheet Option	Server option for generating, managing, and distributing critical business information over the Internet in easy-to-use and intuitive desktop spreadsheets.
Actuate e.Analysis Option	Server option that delivers to users browser-based, interactive analysis of report data without requiring any configuration or warehousing of application data.
Actuate Page Level Security Option	This server option allows users to view reports using page-level security.
Actuate Analytics Cube Designer	Enables IT to control access to the data and define the structure of each cube delivered by the Actuate iServer. Additionally, enables IT to blend Analytics seamlessly into existing Enterprise Reporting Applications and provide a branded, personalized end-user experience that requires almost no training.
Actuate e.Report Designer Professional	Provides a comprehensive, object-oriented environment for professional developers to create tightly integrated, highly flexible enterprise reports for any Web-enabled application.
Actuate e.Report Designer	Wizard-driven development tool that enables Web developers to rapidly publish database information to the Web in the form of embedded, actionable reports.
Actuate e.Spreadsheet Designer	Development environment for creating flexible and customizable Excel-based spreadsheet reports.
Information Object Designer	Development environment that enables professional developers to create controlled views of enterprise data for end-user querying. Additionally, enables the creation of Information Objects that pull and integrate real-time data from any number of heterogeneous data sources.

Table of Contents

Actuate Products

Product Description

Formula One e.Spreadsheet Engine	Provides an API-driven component that Java developers use to embed Excel reporting functionality into projects deployed from J2EE application and Web servers.
Formula One e.Report Engine	100% pure Java tool for extracting, formatting, and delivering data from a variety of data sources including Java objects inside applications, databases, Enterprise JavaBeans, and text files.
Formula One Active X component	Provides an API-driven, Excel-compatible spreadsheet component for building Windows applications in visual development environments such as Visual Basic and Visual C++.

performancesoft pbviews 7.0 is a Performance Management application made up of three modules: Briefing Books, Performance Views and Performance Strategy Maps.

Eclipse Business Intelligence and Reporting Tools Project

Actuate joined the Eclipse Foundation, a community committed to the implementation of a universal platform for tools integration, as strategic developer and board member in August 2004. Actuate proposed a Business Intelligence and Reporting Tools (BIRT) project to the Eclipse open-source community for review at the same time. The Eclipse Foundation approved the project in September 2004. Actuate is stewarding development of BIRT, which culminated in the industry s first open Business Intelligence and Reporting platform in June 2005. We expect to release the second version of the BIRT project in the first quarter of 2006.

Customers

Our customers operate in a wide variety of industries, including financial services, government, health care, manufacturing, pharmaceuticals, telecommunications, high technology, utilities, automotive, education, entertainment, travel, retail and others. International sales accounted for 24%, 21% and 18% of our total revenues in 2005, 2004 and 2003, respectively.

Sales

We sell our software and services worldwide through two primary means: (i) directly to corporate and government customers through our direct sales force and (ii) through indirect channel partners such as OEMs, systems integrators, and resellers.

Direct Sales Organization. Our direct sales force focuses its sales efforts primarily on Global 9000 companies. The direct sales process involves the generation of sales leads through Web-based marketing, direct mail, seminars and telemarketing. As part of the direct sales effort, our field sales force typically conducts demonstrations and presentations of our products to developers and managers at customer sites. Our telesales force conducts demonstrations via the Web and sells our products to new and existing customers over the phone. We maintain sales offices in a number of locations throughout North America, Europe and Asia/Pacific.

Edgar Filing: ACTUATE CORP - Form 10-K

OEM Sales Organization. We have a separate sales force that addresses the OEM market. Our OEMs integrate our products with their applications and either resell or provide them in hosted environments to their customers. The OEM's end-user customer is licensed to use our products solely in conjunction with the vendor's application with which our products are integrated.

Systems Integrators. We have a business development group that focuses on establishing and maintaining relationships with systems integrators. Systems integrators typically re-market our products to their customer base as part of a software application being built for a customer. Systems integrators are offered discounts on our products and sell a full use license of the product. Our systems integrators do not provide post-sales support.

Table of Contents

Resellers. Resellers are typically given the non-exclusive right to market our software in a specific territory and are offered discounts on our products. Resellers typically provide customers with some post-sales support and services.

Marketing

Our marketing organization is focused on generating leads, building market awareness and promoting acceptance of our Company and our products, as well as on developing strategic marketing, technology and other relationships. We have a comprehensive marketing strategy with several key components: image, awareness and credibility building, direct marketing to both prospective and existing customers, a strong Web presence, comprehensive sales support materials as well as broad-scale marketing programs in conjunction with key partners. Our corporate marketing strategy includes print advertising, public relations activities, trade shows and user group meetings. We also engage in programs to work closely with industry analysts and other influential third parties. Our direct marketing activities include extensive Web-based marketing campaigns, participation in selected trade shows and conferences and targeted ongoing direct mail and email efforts to existing and prospective customers. We also offer seminars, both in-person and over the Web, to educate prospective customers about our Enterprise Reporting Application platform and Performance Management Applications. Finally, we have invested in building a partner and channel marketing function to conduct cooperative marketing programs with our partners.

e.Services

Our e.Services organization provides high value consulting services to customers developing and deploying Enterprise Reporting and Performance Management Applications with our products. These services include Enterprise Reporting Application development strategy, project management, security integration and application design. We also actively recruit and train third party consulting firms to provide consulting services for our products. Due to the critical nature of Enterprise Reporting Applications, we believe that our e.Services group and relationships with our consulting partners play a key role in facilitating initial license sales and enabling customers to successfully develop and deploy Actuate-based applications. In addition, we offer, directly and through our network of certified training partners, classes and training programs for our products.

Customer Service

We believe that providing superior customer service is critical to successfully selling and marketing our products. Our maintenance and support contracts are typically for 12 months, and may be renewed annually. Maintenance fees are typically set at either a percentage of the total license fees paid by a customer or a percentage of the list price of the underlying products. Maintenance and support contracts entitle the customer to receive software patches, updates and enhancements, when and if available. Customers purchasing maintenance are able to access Actuate's local support centers located in the United States, Canada, Singapore, Switzerland and the United Kingdom via email and telephone during normal business hours. We supplement our telephone support with Web-based support services, including access to cases, resolutions, online Web forums and a software patch download area. We also offer an extended maintenance plan that gives our customers access to 24x7 support and additional support services. To improve access to our explanatory materials, we provide online documentation with all of our products.

Research and Development

Edgar Filing: ACTUATE CORP - Form 10-K

Our research and development organization is divided into groups consisting of product managers, development engineers, quality assurance engineers, technical writers and developer communications personnel. Our development process begins with requirement specification, followed by functional and technical design, and concludes with implementation. Requirements are based on the needs of customers and prospects, as well as competitive, technological and industry factors. Our development group uses detailed processes and frequent

Table of Contents

milestones during the functional and technical design phases. During implementation, the product is built and tested daily and our quality assurance group verifies that functionality, quality and performance criteria are met. We have development centers located in South San Francisco, CA, Overland Park, Kansas, Shanghai, China and Toronto, Canada.

Research and development expenses were \$16.5 million, \$19.8 million and \$18.7 million in fiscal years 2005, 2004 and 2003, respectively. We intend to continue to make investments in research and development and related activities to maintain and enhance our product lines. We believe that our future success will depend on our ability to create products that directly address our customers' needs, are of high quality, and leverage the latest technological innovations. These products must also support current and future releases of popular operating systems platforms, development languages, databases, Internet standards, and enterprise software applications. We intend to maintain and improve our current product line and to timely develop or acquire new products. Our ability to achieve future revenue growth will depend in large part on the market acceptance of our current and future products.

Competition

Our market is intensely competitive and characterized by rapidly changing technology, evolving standards and new product releases by our competitors that are marketed to compete directly with our products. Our competition comes in four principal forms:

Competition from current or future business intelligence software vendors such as Business Objects, Cognos, Hyperion, Information Builders and MicroStrategy, which offer Enterprise Reporting and Performance Management products;

Competition from other large software vendors such as Microsoft, Oracle and SAP, to the extent they include reporting functionality with their applications or databases;

Competition from other software vendors and software development tool vendors; and

Competition from the IT departments of current or potential customers that may develop scalable Enterprise Reporting and Performance Management Applications internally, which may be cheaper and more customized than our products.

Most of our current and potential competitors have significantly greater financial, technical, marketing and other resources than we do. 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 we may. 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 to release competing enterprise reporting software products or significantly increase the functionality of their existing reporting software products. We expect additional competition as other established and emerging companies enter the Enterprise Reporting and Performance Management Application market and new products and technologies are introduced.

Intellectual Property Rights

We rely primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology. For example, we license our software pursuant to shrink/click-wrap or signed license agreements that impose

Edgar Filing: ACTUATE CORP - Form 10-K

certain restrictions on licensees' ability to utilize the software. In addition, we take precautions to avoid disclosure of our intellectual property. These precautions include requiring those persons with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code. We seek to protect our software, documentation, and other written materials under trade secret and copyright laws, which afford only limited protection. We also have a small number of issued and pending U.S. patents expiring at varying times ranging from 2015 to 2019. The expiration of any such patents would not have a material effect on our business.

Table of Contents**Employees**

As of December 31, 2005, we had 491 full-time employees, including 156 in sales and marketing, 130 in research and development, 112 in services and support, and 93 in general and administrative functions. None of our employees are represented by a collective bargaining agreement, nor have we experienced a work stoppage. We believe our employee relations are good. We also believe that our future success will depend in large part upon our continuing ability to attract and retain highly skilled managerial, sales, marketing, customer support and research and development personnel and, in particular, executive officers.

Actuate Executive Officers

Actuate's executive officers as of February 10, 2006 are as follows:

<u>Name</u>	<u>Offices</u>
Nicolas C. Nierenberg	Chairman of the Board and Chief Architect
Peter I. Cittadini	Director, President and Chief Executive Officer
Daniel A. Gaudreau	Senior Vice President, Operations and Chief Financial Officer
Mark A. Coggins	Senior Vice President, Engineering
Thomas P. Ryan	Senior Vice President, Customer Service and Chief Information Officer
Ilene M. Vogt	Senior Vice President, Global Field Operations
N. Nobby Akiha	Vice President, Marketing
Philip R. Strauss	General Counsel and Vice President, Corporate Development

Nicolas C. Nierenberg, 49, has been Chairman of the Board of Directors since he co-founded Actuate in November 1993 and became our Chief Architect in August 2000. Mr. Nierenberg was also Chief Executive Officer of Actuate from November 1993 until August 2000 and President from November 1993 until October 1998. Prior to founding Actuate, from April 1993 to November 1993, Mr. Nierenberg worked as a consultant for Accel Partners, a venture capital firm, evaluating investment opportunities in the enterprise software market. Mr. Nierenberg co-founded Unify Corporation, which develops and markets relational database development tools. Mr. Nierenberg held a number of positions at Unify including, Chairman of the Board of Directors, Chief Executive Officer, President, Vice President, Engineering and Chief Technical Officer. Mr. Nierenberg is currently a director for AwarePoint, a privately held software company, and is a member of the board of trustees for The Burnham Institute, a non-profit organization.

Peter I. Cittadini, 50, has been Chief Executive Officer of Actuate since August 2000 and has been the President of Actuate since October 1998. Mr. Cittadini was also Actuate's Chief Operating Officer from October 1998 until August 2000 and served as Actuate's Executive Vice President from January 1995 to October 1998. From 1992 to 1995, Mr. Cittadini held a number of positions at Interleaf, Inc., an enterprise software publishing company, including Senior Vice President of Worldwide Operations responsible for worldwide sales, marketing, customer support and services. From 1985 to 1991, Mr. Cittadini held a number of positions at Oracle Corporation, including Vice President, Northeast Division.

Daniel A. Gaudreau, 58, has been Senior Vice President, Operations and Chief Financial Officer since January 1999 and served as Vice President, Finance and Administration and Chief Financial Officer from February 1997 to January 1999. From January 1994 to February 1997,

Edgar Filing: ACTUATE CORP - Form 10-K

Mr. Gaudreau served as Vice President, Finance and Chief Financial Officer of Plantronics, Inc., a publicly traded telephone headset manufacturing company, where he was responsible for all financial and administrative operations. From January 1990 to January 1994, Mr. Gaudreau was Vice President, Finance and Chief Financial Officer at Ready Systems, an operating systems software company. Prior to that, Mr. Gaudreau spent two years at Apple Computer as the Controller of Fremont Manufacturing Operations, prior to which he spent 18 years at General Electric where he

Table of Contents

held various financial management positions. Mr. Gaudreau currently serves as a Director of BiTMICRO Networks, a privately held manufacturer of solid state storage devices.

Mark A. Coggins, 48, has been Senior Vice President, Engineering since October 2003. From May 2001 to April 2003, Mr. Coggins was Vice President, Engineering at Verisign, a publicly traded security software company. From January 1999 to April 2001, Mr. Coggins was Vice President, Products at ShortCycles, a CRM software company. Prior to that, Mr. Coggins held positions in engineering and marketing management at Netscape Communications, Interactive Development Environments and Hewlett Packard.

Thomas P. Ryan, 45, has been Senior Vice President, Customer Service and Chief Information Officer since January 2002 and served as Vice President and Director, Customer Service from August 1997 to December 2001. From June 1996 to July 1997, Mr. Ryan was a senior manager in the advanced support group at Informix. Prior to that, Mr. Ryan held various management positions at Illustra, Oracle Corporation and Amdahl.

Ilene M. Vogt, 47, has been Senior Vice President, Worldwide Operations since July 2002 and served as Senior Vice President and Vice President, North American Operations and Director, Western Region Sales from March 1995 to June 2002. From July 1991 to February 1995, Ms. Vogt was a Sales Manager for Interleaf, Inc.

N. Nobby Akiha, 48, has been Vice President, Marketing since August 2000. From August 1994 to July 2000, Mr. Akiha was Vice President, Marketing and Business Development at Inference Corporation. From October 1993 to July 1994, Mr. Akiha was a Senior Consultant at Regis McKenna, Inc. Prior to that, Mr. Akiha was Director of Marketing Communications at Interactive Development Environments and a Group Product Manager at Oracle Corporation.

Philip R. Strauss, 37, has been General Counsel and Vice President, Corporate Development since January 2005. Mr. Strauss was formerly Vice President and General Counsel of Brio Software (2000 to 2003), held positions as Corporate Counsel at Adobe Systems (2004 to 2005), Senior Counsel at Hyperion Solutions (2003) and was an associate in the law firms Shearman & Sterling LLP and Jones Day.

Website Access to Actuate's Reports

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, are available free of charge through our Website at www.actuate.com as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

Table of Contents

ITEM 1A. RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

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 QUARTERLY AND ANNUAL 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, unreliable. In addition, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and you 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;

The marketing by its competitors of 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 enterprise reporting 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-K

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;

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 and unexpected personnel changes;

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

Table of Contents

Lost revenue due to the availability of open-source products of the Company and its competitors;

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; and

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

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; and

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

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, including plans to increase its sales and marketing and research and development efforts, are based in significant part on its expectations of future revenues and are relatively fixed in the short-term. If revenues fall below its expectations and it is unable to reduce its spending in response quickly, the Company's business, operating results, and financial condition are likely to be harmed.

Edgar Filing: ACTUATE CORP - Form 10-K

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 in some future quarter, the Company's operating results will be 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 could decline.

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

Table of Contents

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. On January 5, 2006, the Company purchased all of the outstanding capital stock of performancesoft, Inc., a privately held company located in Toronto, Canada (performancesoft).

Specifically, the acquisition of performancesoft involves numerous risks, including the following:

The Company's ability to maintain or achieve performancesoft revenue growth or to anticipate a decline in performancesoft revenue from any of its products or services;

The Company's ability to develop and introduce performancesoft products and enhancements that respond to its customer requirements and rapid technological change;

The Company's ability to maintain or select and implement appropriate business models and strategies within performancesoft;

The risks inherent in international operations, such as currency exchange rate fluctuations and economic and political conditions in Canada;

The performancesoft transaction was completed without the benefit of audited financial statements from performancesoft;

The performancesoft stock purchase agreement includes large escrow (\$2.65 million) and earnout or contingent consideration (up to \$13.5 million) provisions that could be the subject of disputes between the Company and certain former performancesoft shareholders; and

The performancesoft stock purchase agreement includes a covenant whereby the Company has agreed to keep the performancesoft subsidiary separate through fiscal 2006.

Generally, acquisitions (including that of performancesoft) 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;

Edgar Filing: ACTUATE CORP - Form 10-K

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

The risk of diverting
in
0in;width:11.0%;">

Preferred stock , \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at March 31, 2008, December 31, 2007 and September 30, 2007, respectively

Common stock; \$0.005 par value; 70,000,000 shares authorized; 40,821,516 shares issued at March 31, 2008, December 31, 2007, and September 30, 2007

	204	204	204
Common stock warrants	24,003	24,003	
Treasury stock, at cost, 6,476,162, 5,144,947, and 5,115,367 shares outstanding at March 31, 2008, December 31, 2007 and September 30, 2007, respectively	(161,995)	(140,320)	(140,340)
Additional paid-in capital	306,143	311,108	312,642
Retained earnings	42,985	47,886	53,226
Accumulated other comprehensive loss	(360)	(1,842)	(720)
Total stockholders equity	210,980	241,039	225,012
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 585,202	\$ 570,458	\$ 506,741

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,	
	2008	2007
	(As restated)	
Revenues:		
Software license fees	\$ 37,739	\$ 38,524
Maintenance fees	31,437	29,901
Services	21,487	21,523
Total revenues	90,663	89,948
Expenses:		
Cost of software license fees	12,491	11,193
Cost of maintenance and services	28,265	23,351
Research and development	12,553	12,041
Selling and marketing	16,750	16,799
General and administrative	22,680	26,353
Total expenses	92,739	89,737
Operating income (loss)	(2,076)	211
Other income (expense):		
Interest income	593	1,014
Interest expense	(1,366)	(1,597)
Other, net	(190)	(337)
Total other income (expense)	(963)	(920)
Loss before income taxes	(3,039)	(709)
Income tax expense (benefit)	1,862	(295)
Net loss	\$ (4,901)	\$ (414)
Loss per share information		
Weighted average shares outstanding		
Basic	35,165	37,162
Diluted	35,165	37,162
Loss per share		
Basic	\$ (0.14)	\$ (0.01)
Diluted	\$ (0.14)	\$ (0.01)

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	For the Three Months Ended March 31,	
	2008	2007
	(As restated)	
Cash flows from operating activities:		
Net loss	\$ (4,901)	\$ (414)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	1,576	1,460
Amortization	3,809	3,622
Tax expense of intellectual property shift	590	478
Amortization of debt financing costs	84	84
Gain on reversal of asset retirement obligation	(949)	
Loss on disposal of assets	218	9
Change in fair value of interest rate swaps	3,689	
Deferred income taxes	(3,003)	(1,825)
Stock-based compensation expense	2,552	1,664
Tax benefit of stock options exercised and cash settled	40	740
Changes in operating assets and liabilities, net of impact of acquisitions:		
Billed and accrued receivables, net	3,215	(5,806)
Other current assets	(3,064)	520
Other assets	668	(168)
Accounts payable	(3,793)	(2,473)
Accrued employee compensation	(1,825)	2,040
Proceeds from alliance agreement	36,087	
Accrued liabilities	(4,264)	1
Current income taxes	1,413	(3,340)
Deferred revenue	14,328	19,693
Other current and noncurrent liabilities	54	(17)
Net cash flows from operating activities	46,524	16,268
Cash flows from investing activities:		
Purchases of property and equipment	(1,465)	(1,004)
Purchases of software and distribution rights	(1,127)	(340)
Alliance technical enablement expenditures	(943)	
Acquisition of businesses, net of cash acquired	(13)	(8,165)
Proceeds from alliance agreement	1,246	
Net cash flows from investing activities	(2,302)	(9,509)
Cash flows from financing activities:		
Proceeds from issuance of common stock	639	
Proceeds from exercises of stock options	382	
Excess tax benefit of stock options exercised	28	
Purchases of common stock	(30,064)	
Payments on debt and capital leases	(791)	(472)
Net cash flows from financing activities	(29,806)	(472)
Effect of exchange rate fluctuations on cash	(2,760)	(224)
Net increase in cash and cash equivalents	11,656	6,063
Cash and cash equivalents, beginning of period	97,011	89,900
Cash and cash equivalents, end of period	\$ 108,667	\$ 95,963

Edgar Filing: ACTUATE CORP - Form 10-K

Supplemental cash flow information

Income taxes paid, net	\$	3,407	\$	3,571
Interest paid	\$	1,344	\$	1,290

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited and in thousands)

1. Consolidated Financial Statements

The unaudited consolidated financial statements include the accounts of ACI Worldwide, Inc. (the Company) and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements at March 31, 2008 and December 31, 2007, and for the three months ended March 31, 2008 and 2007, are unaudited and reflect all adjustments of a normal recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods.

The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2007, as amended by the Form 10-K/A for the same period filed March 4, 2008.

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

Change in Fiscal Year End

Effective January 1, 2008, the Company changed its fiscal year end from September 30 to December 31. The Company's new fiscal year commenced January 1, 2008 and will end on December 31, 2008. This first quarterly report on Form 10-Q compares the financial position as of March 31, 2008 to December 31, 2007 and September 30, 2007 and the results of operations for the three months ended March 31, 2008 with the results of operations for the three months ended March 31, 2007. The Company has changed its fiscal year end to align its sales contracting and delivery processes with its customers and to allow for more effective communication with the capital markets and investment community by being consistent with its peer group.

Acquisitions

Visual Web Solutions, Inc.

Edgar Filing: ACTUATE CORP - Form 10-K

On February 7, 2007, the Company acquired Visual Web Solutions, Inc. (Visual Web), a provider of international trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region. These solutions complement and have been integrated with the Company's U.S.-centric cash management and online banking solutions to create a more complete international offering. Visual Web had wholly-owned subsidiaries in Singapore for sales and customer support and in Bangalore, India for product development and services.

The consolidated financial statements as of March 31, 2007 and for the three months then ended include amounts acquired from, as well as the results of operations of, Visual Web from February 7, 2007 forward. The consolidated financial statements as of March 31, 2008, December 31, 2007, and September 30, 2007, and for the three months ended March 31, 2008 include amounts acquired from, as well as the results of operations of, Visual Web.

The aggregate purchase price of Visual Web, including direct costs of the acquisition, was \$8.3 million, net of \$1.1 million of cash acquired. Under the terms of the acquisition, the parties established a cash escrow arrangement in which \$1.1 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies. The allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets.

Stratasoft Sdn Bhd

On April 2, 2007, the Company acquired Stratasoft Sdn Bhd (Stratasoft), a Malaysian-based provider of electronic payment solutions. This acquisition compliments the Company s strategy to move to a direct sales model in selected markets in Asia.

The consolidated financial statements as of March 31, 2008, December 31, 2007, and September 30, 2007, and for the three months ended March 31, 2008, include amounts acquired from, as well as the results of operations of, Stratasoft.

The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was \$2.5 million, net of \$0.7 million of cash acquired. The preliminary allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets. The finalization of the purchase price allocation may result in certain adjustments to the preliminary amounts including bad debt reserves, tax contingencies, earn out and escrow settlements.

The Company will pay an additional aggregate amount of up to \$1.2 million (subject to foreign currency fluctuations) to the sellers if Stratasoft achieves certain financial targets set forth in the purchase agreement for the periods ending December 31, 2007 and December 31, 2008. The Company is continuing to assess the additional amounts payable to the sellers of Stratasoft, if any, for the period ending December 31, 2007 in accordance with the targets set forth in the purchase agreement. Upon completion of this assessment, any additional amounts would be recorded as an increase to goodwill in the accompanying consolidated balance sheet.

Under the terms of the acquisition, the parties established a cash escrow arrangement in which \$0.5 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies.

Lease Termination

During the three months ended March 31, 2008, the Company terminated the lease for one of its facilities in Watford, England. Under the terms of the termination agreement, the Company paid a termination fee of approximately \$0.9 million that was recorded in general and administrative expenses in the accompanying consolidated statements of operations for the three months ended March 31, 2008. Further under the termination agreement, the Company was relieved of its contractual obligations with respect to the restoration of facilities back to their original condition. As a result, the Company recognized a gain of approximately \$1.0 million related to the relief from this liability, which is also recorded in general and administrative expenses in the accompanying consolidated statements of operations. At March 31, 2008, December 31, 2007 and September 30, 2007, the Company had contractual obligations with respect to the restoration of leased facilities of \$1.6 million, \$2.5 million and \$2.6 million, respectively, recorded in other liabilities in the accompanying consolidated balance sheets.

Recently Issued Accounting Standards

Edgar Filing: ACTUATE CORP - Form 10-K

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and

interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have on its consolidated financial statements.

On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS 161). SFAS 161 amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133) and was issued in response to concerns and criticisms about the lack of adequate disclosure of derivative instruments and hedging activities. SFAS 161 requires; (i) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of an entity's overall risk exposure, (ii) quantitative disclosures in tabular format of the fair values of derivative instruments and their gains and losses, and (iii) disclosures about credit-risk related contingent features in derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, but early application is encouraged. The Company is currently evaluating the impact, if any, the adoption of SFAS 161 will have on its consolidated financial statements.

2. Restatement

As a result of an error identified in our financial statements, we have restated our previously filed consolidated financial statements as of March 31, 2008 and for the three-month period ended March 31, 2008. We have determined that \$1.9 million in revenue recognized during the three months ended March 31, 2008 for a specific software project in the Asia/Pacific reportable operating segment should have been deferred until further project milestones were achieved. In addition, \$0.4 million in expenses should have been deferred related to the same software project. The income tax effect of these errors was approximately \$0.1 million.

Summary of restatement items for the three-month period ended March 31, 2008:

	Adjustments
Net loss as originally recorded	\$ (3,460)
Error in revenue recognition (A)	(1,928)
Deferred expense recognition (B)	364
Income tax effect of revenue and deferred expense adjustments (C)	123
Net loss as adjusted	\$ (4,901)

Errors in previously issued financial statements were identified in the following areas:

(A) Revenue

During the three-month period ended March 31, 2008, we recognized \$1.9 million in revenue related to a specific software project that should have been deferred until additional project milestones were achieved.

(B) Deferred expense recognition

During the three-month period ended March 31, 2008, \$0.4 million of costs related to the performance of the services revenue recognized related to the specific software project discussed above were expensed. As the associated revenues have now been determined to be deferred, direct and incremental costs related to the performance of these services revenues are also being deferred.

(C) Taxes

Represents adjustments to tax effect the revenue and deferred expense recognition adjustments discussed in (A) and (B) above.

The following items in the Consolidated Balance Sheet, Consolidated Statement of Operations and Consolidated Statement of Cash Flows have been restated as follows based on the items noted above.

Edgar Filing: ACTUATE CORP - Form 10-K

Consolidated Balance Sheet	As previously reported	As restated
Recoverable income taxes	\$ 4,337	\$ 4,460
Other current assets	11,078	11,442
Total current assets	237,270	237,757
Total assets	584,715	585,202
Deferred revenue (current)	135,398	137,326
Total current liabilities	198,130	200,058
Total liabilities	372,294	374,222
Retained earnings	44,426	42,985
Total stockholders' equity	212,421	210,980
Total liabilities and stockholders' equity	584,715	585,202

Consolidated Statement of Operations	As previously reported	As restated
Software license fees	\$ 39,098	\$ 37,739
Maintenance fees	31,473	31,437
Services	22,020	21,487
Total revenues	92,591	90,663
Cost of maintenance and services	28,629	28,265
Total operating expense	93,103	92,739
Operating loss	(512)	(2,076)
Total other income (expense)	(963)	(963)
Loss before income taxes	(1,475)	(3,039)
Income tax expense	1,985	1,862
Net loss	(3,460)	(4,901)
Loss per share		
Basic and Diluted	\$ (0.10)	\$ (0.14)

Consolidated Statement of Cash Flows	As previously reported	As restated
Net loss	\$ (3,460)	\$ (4,901)
Other current assets	(2,700)	(3,064)
Current income taxes	1,536	1,413
Deferred revenue	12,400	14,328
Net cash flows from operating activities	46,524	46,524
Net cash flows from investing activities	(2,302)	(2,302)
Net cash flows from financing activities	(29,806)	(29,806)

3. Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition* (SOP 97-2), SOP 98-9, Modification of SOP 97-2, *Software Revenue Recognition With Respect to Certain Transactions* (SOP 98-9), and Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements*, as codified by SAB 104, *Revenue Recognition*. For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence (VSOE) of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as post contract customer support (maintenance or PCS) or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant modification or customization of software, those services are not separable from the software and are accounted for in accordance with Accounting Research Bulletin (ARB) No. 45, *Long-Term Construction-Type Contracts* (ARB No. 45), and the relevant guidance provided by SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1). Accounting for services delivered over time (generally in excess of twelve months) under ARB No. 45 and SOP 81-1 is referred to as contract accounting. Under contract accounting, the Company generally uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. In certain cases, the Company provides its customers with extended payment terms whereby payment is deferred beyond when the services are rendered. In other projects, the Company provides its customer with extended payment terms that are refundable in the event certain milestones are not achieved or the project scope changes. The Company excludes revenues due on extended payment terms from its current percentage-of-completion computation until such time that collection of the fees becomes probable. In the event project profitability is assured and estimable within a range, percentage-of-completion revenue recognition is computed using the lowest level of profitability in the range. If the range of profitability is not estimable but some level of profit is assured, revenues are recognized to the extent direct and incremental costs are incurred until such time that project profitability can be estimated. In the event some level of profitability cannot be reasonably assured, completed-contract accounting is applied. If it is determined that a loss will result from the performance of a contract, the entire amount of the loss is recognized in the period in which it is determined that a loss will result.

For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, provided all other conditions for revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectibility, the Company considers the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

SOP 97-2 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. For certain of the Company's products, VSOE of the fair value of PCS is determined by reference to stated renewals with consistent pricing of PCS and PCS renewals as a percentage of the software license fees. In other products, the Company determines VSOE by reference to contractual renewals, when the renewal terms are substantive. In those cases where VSOE of the fair value of PCS is determined by reference to stated renewals, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal rate is significantly below the Company's normal pricing practices.

In the absence of customer-specific acceptance provisions, software license arrangements generally grant customers a right of refund or replacement only if the licensed software does not perform in accordance with its published specifications. If the Company's product history supports an assessment by management that the likelihood of non-acceptance is remote, the Company recognizes revenue when all other criteria of revenue recognition are met.

For those software license arrangements that include customer-specific acceptance provisions, such provisions are generally presumed to be substantive and the Company does not recognize revenue until the earlier of the receipt of a written customer acceptance, objective demonstration that the delivered product meets the customer-specific acceptance criteria or the expiration of the acceptance period. The Company also defers the recognition of revenue on transactions involving less-established or newly released software products that do not have a product history. The Company recognizes revenues on such arrangements upon the earlier of receipt of written acceptance or the first production use of the software by the customer.

For software license arrangements in which the Company acts as a sales agent for another company's products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commission. For software license arrangements in which the Company acts as a distributor of another company's product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

For software license arrangements in which the Company permits the customer to receive or exchange for unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer has the right to change or alternate its use of currently licensed products, revenue is recognized upon delivery of the first copy of all of the licensed products, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged variable software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Certain of the Company's software license arrangements include PCS terms that fail to achieve VSOE of fair value due to non-substantive renewal periods, or contain a range of possible PCS renewal amounts that is not sufficiently narrow to establish VSOE of fair value. For these arrangements, VSOE of fair value of PCS does not exist and revenues are therefore recognized ratably over the contractually specified PCS term. The Company typically classifies revenues associated with these arrangements in accordance with the contractually specified amounts assigned to the various elements, including software license fees and maintenance fees. The following are amounts included in revenues in the consolidated statements of operations for which VSOE of fair value does not exist for each element (in thousands):

**Three Months Ended
March 31,**

Edgar Filing: ACTUATE CORP - Form 10-K

	2008	2007
Software license fees	\$ 3,227	\$ 2,681
Maintenance fees	1,252	961
Services	1,258	1,161
Total	\$ 5,737	\$ 4,803

Maintenance Fees. The Company typically enters into multi-year time-based software license arrangements that vary in length but are generally five years. These arrangements include an initial (bundled) PCS term of one or two years with subsequent renewals for additional years within the initial license period. For arrangements in which the Company looks to substantive renewal rates

to evidence VSOE of fair value of PCS and in which the PCS renewal rate and term are substantive, VSOE of fair value of PCS is determined by reference to the stated renewal rate. For these arrangements, PCS revenues are recognized ratably over the PCS term specified in the contract. In arrangements where VSOE of fair value of PCS cannot be determined (for example, a time-based software license with a duration of one year or less or when the range of possible PCS renewal amounts is not sufficiently narrow), the Company recognizes revenue for the entire arrangement ratably over the PCS term.

For those arrangements that meet the criteria to be accounted for under contract accounting, the Company determines whether VSOE of fair value exists for the PCS element. For those situations in which VSOE of fair value exists for the PCS element, PCS is accounted for separately and the balance of the arrangement is accounted for under ARB No. 45 and the relevant guidance provided by SOP 81-1. For those arrangements in which VSOE of fair value does not exist for the PCS element, revenue is recognized to the extent direct and incremental costs are incurred until such time as the services are complete. Once services are complete, all remaining revenue is then recognized ratably over the remaining PCS period.

Services. The Company provides various professional services to customers, primarily project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally recognized as the related services are performed. For those arrangements in which services revenue is deferred and the Company determines that the costs of services are recoverable, such costs are deferred and subsequently expensed in proportion to the services revenue as it is recognized.

Hosting. The Company's hosting-related arrangements contain multiple products and services. As these arrangements generally do not contain a contractual right to take possession of the software at anytime during the hosting period without significant penalty, the Company applies the separate provisions of Emerging Issues Task Force (EITF) 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company uses the relative fair value method of revenue recognition to allocate the total consideration derived from the arrangement to each of the elements. Any up-front fees allocated to the hosting services are recognized over the estimated life of the hosting relationship. Professional services revenues are recognized as the services are performed when the services have stand-alone value and over the estimated life of the hosting relationship when the services do not have stand-alone value.

The Company may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate agreements for revenue recognition purposes. The Company evaluates the facts and circumstances related to each situation in order to reach appropriate conclusions regarding whether such arrangements are related or separate. The conclusions reached can impact the timing of revenue recognition related to those arrangements.

Accrued Receivables. Accrued receivables represent amounts to be billed in the near future (less than 12 months).

Deferred Revenue. Deferred revenue includes (1) amounts currently due and payable from customers, and payments received from customers, for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE of the fair value of undelivered elements in a bundled arrangement does not exist, and (3) amounts deferred if other conditions for revenue recognition have not been met.

4. Share-Based Compensation Plans

Employee Stock Purchase Plan

Under the Company's 1999 Employee Stock Purchase Plan, as amended (the "ESPP"), a total of 1,500,000 shares of the Company's common stock have been reserved for issuance to eligible employees. Participating employees are permitted to designate up to the lesser of \$25,000 or 10% of their annual base compensation for the purchase of common stock under the ESPP. Purchases under the ESPP are made one calendar month after the end of each fiscal quarter. The price for shares of common stock purchased under the ESPP is 85% of the stock's fair market value on the last business day of the three-month participation period. Shares issued under the ESPP during the three months ended March 31, 2008 totaled 33,283. No shares were issued under the ESPP during the three months ended March 31, 2007, as the Company was not current with its filings with the SEC.

Accounting for Share-Based Payments Pursuant to SFAS 123(R)

The Company adopted SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)), as of October 1, 2005 using the modified prospective transition method. This revised accounting standard eliminated the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25, and requires instead that such transactions be accounted for using a fair-value-based method. SFAS 123(R) requires entities to record noncash compensation expense related to payment for employee services by an equity award in their financial statements over the requisite service period. In March 2005, the SEC issued SAB 107, which does not modify any of SFAS 123(R) s conclusions or requirements, but rather includes recognition, measurement and disclosure guidance for companies as they implement SFAS 123(R).

Upon adoption of SFAS 123(R), all of the Company s existing share-based compensation awards were determined to be equity classified awards. A portion of these options were reclassified to liability classification as they were subsequently cash settled. Under the modified prospective transition method, the Company is required to recognize noncash compensation costs for the portion of share-based awards that are outstanding as of October 1, 2005 for which the requisite service has not been rendered (i.e., nonvested awards). These compensation costs are based on the grant date fair value of those awards as calculated for pro forma disclosures under SFAS 123. The Company is recognizing compensation costs related to the nonvested portion of those awards in the financial statements from the SFAS 123(R) adoption date through the end of the requisite service period.

A summary of stock options is as follows:

	Number of Shares	Weighted- Average Exercise Price (\$)	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-the-Money Options (\$)
Outstanding, September 30, 2007	3,708,431	\$ 22.35		
Granted				
Exercised	(51,160)	10.75		
Cancelled/Forfeited/Expired	(66,946)	27.39		
Outstanding, December 31, 2007	3,590,325	22.43		
Granted	377,000	16.84		
Exercised	(37,757)	10.13		
Cancelled/Forfeited/Expired	(148,144)	24.93		
Outstanding, March 31, 2008	3,781,424	\$ 21.89	6.87	\$ 10,950,820
Exercisable, March 31, 2008	1,909,696	\$ 16.96	5.28	\$ 9,926,070

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2008 was \$9.39. No stock options were granted during the three months ended March 31, 2007. The Company issued treasury shares for the exercise of stock options during the three months ended March 31, 2008. The total intrinsic value of stock options exercised during the three months ended March 31, 2008 was \$0.3 million. There were no stock option exercises during the three months ended March 31, 2007.

Edgar Filing: ACTUATE CORP - Form 10-K

The fair value of options granted during the three months ended March 31, 2008 was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS 123(R), with the following assumptions:

Three Months Ended March 31, 2008	
Expected life (years)	6.25
Interest rate	3.1%
Volatility	55.4%
Dividend yield	

Expected volatilities are based on the Company's historical common stock volatility derived from historical stock price data for historical periods commensurate with the options' expected life. The expected life of options granted represents the period of time that options granted are expected to be outstanding, assuming differing exercise behaviors for stratified employee groupings. The Company used the simplified method for determining the expected life as permitted under SAB 110, Topic 14, *Share-Based Payment*. The simplified method was used as the historical data did not provide a reasonable basis upon which to estimate the expected term. This is due to the extended period during which individuals were unable to exercise options while the Company was not current with its filings with the SEC. The risk-free interest rate is based on the implied yield currently available on United States Treasury zero coupon issues with a term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

The Company did not grant any long-term incentive program performance share awards (LTIP Performance Shares) pursuant to the Company's 2005 Equity and Performance Incentive Plan, as amended (the 2005 Incentive Plan), during the three months ended March 31, 2008 or 2007. A summary of nonvested LTIP Performance Shares is as follows:

Nonvested LTIP Performance Shares	Number of Shares at Expected Attainment	Weighted- Average Grant Date Fair Value
Nonvested at September 30, 2007	312,117	\$ 31.95
Granted		
Vested		
Change in expected attainment for fiscal 2005 and 2006 grants	(132,110)	29.00
Forfeited or expired	(5,060)	29.10
Nonvested at December 31, 2007	174,947	34.25
Granted		
Vested		
Forfeited or expired	(4,098)	34.30
Nonvested at March 31, 2008	170,849	\$ 34.25

These LTIP Performance Shares are earned, if at all, based upon the achievement, over a specified period that must not be less than one year and is typically a three-year period (the Performance Period), of performance goals related to (i) the compound annual growth over the Performance Period in the Company's 60-month backlog as determined and defined by the Company, (ii) the compound annual growth over the Performance Period in the diluted earnings per share as reported in the Company's consolidated financial statements, and (iii) the compound annual growth over the Performance Period in the total revenues as reported in the Company's consolidated financial statements. In no event will any of the LTIP Performance Shares become earned if the Company's earnings per share is below a predetermined minimum threshold level at the conclusion of the Performance Period. Assuming achievement of the predetermined minimum earnings per share threshold level, up to 150% of

Edgar Filing: ACTUATE CORP - Form 10-K

the LTIP Performance Shares may be earned upon achievement of performance goals equal to or exceeding the maximum target levels for compound annual growth over the Performance Period in the Company's 60-month backlog, diluted earnings per share and total revenues. Management must evaluate, on a quarterly basis, the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment in order to determine the amount of compensation costs to record in the consolidated financial statements.

Edgar Filing: ACTUATE CORP - Form 10-K

Through September 30, 2007, the Company had accrued compensation costs assuming an attainment level of 110% for the awards granted in fiscal 2005 and 2006. During the three months ended December 31, 2007, the Company changed the expected attainment to 0% based upon revised forecasted diluted earnings per share, which the Company does not expect will achieve the predetermined earnings per share minimum threshold level required for the LTIP Performance Shares granted in fiscal 2005 and 2006 to be earned. As the performance goals were considered improbable of achievement, the Company reversed compensation costs related to the awards granted in fiscal 2005 and 2006 during the three months ended December 31, 2007.

Based on forecasts for the performance period of the awards granted during the fiscal year ended September 30, 2007, management currently believes that an achievement level of 100% will be attained for those awards.

During the three months ended March 31, 2008, pursuant to the Company's 2005 Incentive Plan, the Company granted restricted share awards (RSAs). These awards have requisite service periods of four years and vest in increments of 25% on the anniversary dates of the grants. Under each arrangement, stock is issued without direct cost to the employee. The Company estimates the fair value of the RSAs based upon the market price of the Company's stock at the date of grant. The RSA grants provide for the payment of dividends payable on the Company's common stock, if any, to the participant during the requisite service period (vesting period) and the participant has voting rights for each share of common stock. The Company recognizes compensation expense for RSAs on a straight-line basis over the requisite service period.

A summary of nonvested RSAs as of March 31, 2008 and changes during the period are as follows:

Nonvested Restricted Share Awards	Number of Restricted Share Awards	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2007		\$
Granted	237,500	16.17
Vested		
Forfeited or expired		
Nonvested at March 31, 2008	237,500	\$ 16.17

As of March 31, 2008, there were unrecognized compensation costs of \$16.2 million related to nonvested stock options, \$2.5 million related to nonvested LTIP Performance Shares, and \$2.4 million related to the nonvested RSAs, which the Company expects to recognize over weighted-average periods of 2.8 years, 1.8 years and 3.8 years, respectively.

The Company recorded stock-based compensation expenses in accordance with SFAS 123(R) for the three months ended March 31, 2008 and 2007 related to stock options, LTIP Performance Shares, RSAs, and the ESPP of \$2.6 million and \$1.7 million, respectively, with corresponding tax benefits of \$1.0 million and \$0.6 million, respectively. Tax benefits in excess of the option's grant date fair value under SFAS 123(R) are classified as financing cash flows. No stock-based compensation costs were capitalized during the three months ended March 31, 2008 and 2007. Estimated forfeiture rates, stratified by employee classification, have been included as part of the Company's calculations of compensation costs. The Company recognizes compensation costs for stock option awards which vest with the passage of time with only service conditions on a straight-line basis over the requisite service period.

Cash received from option exercises for the three months ended March 31, 2008 was \$0.4 million. The actual tax benefit realized for the tax deductions from option exercises totaled \$0.2 million for the three months ended March 31, 2008.

During the three months ended December 31, 2007, the Company reclassified 31,393 vested options from equity classification to liability classification, as these options were expected to cash settle subsequent to December 31, 2007 due to the suspension of option exercises because the Company was not current with its filings with the SEC. As a result, the Company recorded a liability of approximately \$0.1 million and recorded compensation expense of \$0.1 million in the three months ended December 31, 2007. This liability was paid during the three months ended March 31, 2008. As of March 31, 2008, the Company was current with its filings with the SEC and therefore, all outstanding options were classified as equity.

5. Goodwill

Changes in the carrying amount of goodwill attributable to each reportable operating segment during the three months ended December 31, 2007 and March 31, 2008, consisting primarily of foreign currency translation adjustments, were as follows (in thousands):

	Goodwill	
Balance, September 30, 2007	\$	205,715
Foreign currency translation adjustments		628
Adjustments - S2 (1)		13
Adjustments - Visual Web (2)		414
Balance, December 31, 2007		206,770
Foreign currency translation adjustments		3,175
Adjustments - S2 (3)		7
Balance, March 31, 2008	\$	209,952

- (1) Adjustment to S2 Systems, Inc. acquisition relates to settlement of escrow balances in accordance with the purchase agreement.
- (2) Visual Web purchase accounting adjustment relates to an adjustment to deferred tax balances.
- (3) Adjustment to S2 Systems, Inc. acquisition relates to a contingency payment made in accordance with the purchase agreement.

6. Software and Other Intangible Assets

The carrying amount and accumulated amortization of the Company's software that was subject to amortization at each balance sheet date are as follows (in thousands):

	March 31, 2008	December 31, 2007	September 30, 2007
Internally-developed software	\$ 13,320	\$ 13,299	\$ 13,302
Purchased software	84,338	82,410	80,836
	97,658	95,709	94,138
Less: accumulated amortization	(66,698)	(64,279)	(62,374)
Software, net	\$ 30,960	\$ 31,430	\$ 31,764

At March 31, 2008, the software net book value includes the following software purchased through acquisitions which is being marketed for external sale: \$1.6 million of S2 Systems, Inc. purchased software, \$3.9 million of eps Electronic Payment Systems AG purchased software, \$16.8 million of P&H Solutions, Inc. purchased software and \$1.1 million of Visual Web purchased software. The remaining software net book value of \$7.6 million is comprised of various software that has been acquired or developed for internal use. The Company capitalized \$0.7 million of internal software development costs to be marketed for external sale in the three months ended March 31, 2008, none were capitalized in the three months ended March 31, 2007. In addition, see Note 16, International Business Machines Corporation Alliance.

Quarterly amortization of acquired software marketed for external sale is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three to six years. Software amortization expense recorded in the three months ended March 31, 2008 and 2007 totaled \$2.1 million and \$2.0 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the consolidated statements of operations.

Edgar Filing: ACTUATE CORP - Form 10-K

The carrying amount and accumulated amortization of the Company's other intangible assets that were subject to amortization at each balance sheet date are as follows (in thousands):

	March 31, 2008	December 31, 2007	September 30, 2007
Customer relationships	\$ 41,115	\$ 40,538	\$ 40,488
Purchased contracts	11,634	11,593	11,643
Trademarks and tradenames	2,336	2,266	2,246
Covenant not to compete	1,561	1,546	1,531
	56,646	55,943	55,908
Less: accumulated amortization	(19,682)	(17,855)	(16,223)
Other intangible assets, net	\$ 36,964	\$ 38,088	\$ 39,685

Other intangible assets amortization expense recorded in the three months ended March 31, 2008 and 2007 totaled \$1.7 million and \$1.6 million, respectively.

Based on capitalized intangible assets at March 31, 2008, estimated amortization expense for future fiscal years is as follows (in thousands):

Fiscal Year Ending December 31,	Software Amortization	Other Intangible Assets Amortization
Remainder of 2008	\$ 6,773	\$ 4,878
2009	8,479	6,355
2010	7,289	6,309
2011	5,321	5,956
2012	2,724	4,886
Thereafter	374	8,580
Total	\$ 30,960	\$ 36,964

7. Derivative Instruments and Hedging Activities

The Company maintains an interest-rate risk-management strategy that uses derivative instruments to mitigate the risk of variability in future cash flows (and related interest expense) associated with currently outstanding and forecasted floating rate bank borrowings due to changes in the benchmark interest rate (LIBOR).

At March 31, 2008, the Company had \$75 million of outstanding variable-rate borrowings under a 5-year \$150 million revolving facility that matures on September 29, 2011. The variable-rate benchmark is 3-month LIBOR. During the year ended September 30, 2007, the Company entered into two interest-rate swaps to convert its existing and forecasted variable-rate borrowing needs to fixed rates.

Although the Company believes that these interest rate swaps will mitigate the risk of variability in future cash flows associated with existing and forecasted variable rate borrowings during the term of the swaps, neither swap qualifies for hedge accounting. Accordingly, the change in

Edgar Filing: ACTUATE CORP - Form 10-K

the aggregate fair value liability for the three months ended March 31, 2008 of \$3.7 million is reflected as expense in other income (expense), net in the accompanying consolidated statements of operations.

Changes in the fair value of the interest rate swaps were as follows (in thousands):

	Asset (Liability)
Beginning fair value, September 30, 2007	\$ (2,077)
Loss recognized in earnings	(2,475)
Fair value, December 31, 2007	(4,552)
Loss recognized in earnings	(3,689)
Ending fair value, March 31, 2008	\$ (8,241)

As of March 31, 2008, the \$8.2 million fair value liability is recorded as \$3.8 million and \$4.4 million in other current liabilities and other noncurrent liabilities, respectively, on the accompanying consolidated balance sheet.

Net settlements are measured monthly and paid quarterly. The net settlements are recorded in other income (expense) in the accompanying consolidated statements of operations. Included in the \$8.2 million fair value at March 31, 2008, is approximately \$0.2 million of net settlement obligations paid by the Company subsequent to March 31, 2008.

Subsequent to March 31, 2008, events in the global credit markets have impacted the expectation of near-term variable borrowing rates. As a result, the Company has experienced a positive impact to the fair value liability of its interest rate swaps. During April 2008, the fair value liability has decreased approximately \$2.0 million from a balance of \$8.2 million as of March 31, 2008 to \$6.2 million as of April 30, 2008.

8. Fair Value Financial Instruments

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157), for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, the Company will delay application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes valuation models prepared by a third-party with observable market data inputs to estimate fair value of its interest rate swaps.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Description	Fair Value Measurements at Reporting Date Using			
	March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities	\$ 8,241	\$	\$ 8,241	\$

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. As stated above, SFAS 157 will be applicable to these fair value measurements beginning January 1, 2009.

The Company pays interest quarterly on its long-term revolving credit facility based upon the LIBOR rate plus a margin ranging from 0.625% to 1.375%, the margin being dependent upon the Company's total leverage ratio at the end of the quarter. At March 31, 2008, the fair value of the Company's long-term revolving credit facility approximates its carrying value.

9. Corporate Restructuring and Other Reorganization Charges

Changes in the liability for corporate restructuring charges during the three months ended March 31, 2008 were as follows:

	Termination Benefits
Balance, September 30, 2007	\$ 2,726
Additional restructuring charges incurred	477
Amounts paid during the period	(1,829)
Other	23
Balance, December 31, 2007	1,397
Adjustments to recognized liabilities	(45)
Amounts paid during the period	(659)
Other	52
Balance, March 31, 2008	\$ 745

Other includes the impact of foreign currency translation.

Edgar Filing: ACTUATE CORP - Form 10-K

At March 31, 2008, December 31, 2007 and September 30, 2007, the liabilities were classified as short-term in accrued employee compensation in the accompanying consolidated balance sheets. See Note 17, International Business Machines Corporation Information Technology Outsourcing Agreement .

10. Common Stock and Earnings (Loss) Per Share

In December 2004, the Company announced that the board of directors approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to \$80.0 million of our common stock. In May 2006, the Company's board of directors approved an increase of \$30.0 million to the stock repurchase program, bringing the total of the approved plan to \$110.0 million. In March 2007, the Company's board of directors approved an increase of \$100 million to the current repurchase authorization, bringing the total authorization to \$210 million. Under the program to date, the Company has purchased approximately 6,049,484 shares for approximately \$154 million. The maximum remaining dollar value

of shares authorized for purchase under the stock repurchase program was approximately \$57 million as of March 31, 2008. Purchases will be made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations.

Earnings (loss) per share is computed in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings (loss) per share is computed on the basis of weighted average outstanding common shares. Diluted earnings (loss) per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options and other outstanding dilutive securities. The following table reconciles the average share amounts used to compute both basic and diluted earnings (loss) per share (in thousands):

	Three Months Ended March 31,	
	2008	2007
Weighted average share outstanding:		
Basic weighted average shares outstanding	35,165	37,162
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities		
Diluted weighted average shares outstanding	35,165	37,162

For the three months ended March 31, 2008 and 2007, 4.3 million and 3.5 million, respectively, options to purchase shares, restricted share awards and contingently issuable shares were excluded from the diluted net income (loss) per share computation due to the net loss.

11. Other Income/Expense

Other income (expense) is comprised of the following items (in thousands):

	Three Months Ended March 31,	
	2008	2007
Foreign currency transactions gains (losses)	\$ 3,659	\$ (272)
Change in fair value of interest rate swap	(3,689)	
Other	(160)	(65)
Total	\$ (190)	\$ (337)

12. Comprehensive Income (Loss)

The Company's components of other comprehensive income were as follows (in thousands):

Edgar Filing: ACTUATE CORP - Form 10-K

	Three Months Ended March 31,	
	2008	2007
	(As restated)	
Net loss	\$ (4,901)	\$ (414)
Foreign currency translation adjustments	1,482	595
Comprehensive income (loss)	\$ (3,419)	\$ 181

Accumulated other comprehensive loss included in the Company's consolidated balance sheets represents the accumulated foreign currency translation adjustment. Since the undistributed earnings of the Company's foreign subsidiaries are considered to be indefinitely reinvested, the components of accumulated other comprehensive income (loss) have not been tax effected.

13. Segment Information

The Company's chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. The Company's products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. As such, the Company has concluded that its three geographic regions are its reportable operating segments.

The Company's chief operating decision makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by geographical region.

The Company allocated segment support expenses such as global product delivery, business operations and management based upon percentage of revenue per segment. Corporate costs are allocated as a percentage of the headcount by segment. The prior period amounts for operating income (loss) have been reclassified to conform to current period presentation, which reflect a change in the allocation of certain costs related to acquired businesses across the reportable operating segments versus solely in the region in which the acquired business was located in when acquired. The following are revenues and operating income (loss) for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2008	2007
	(As restated)	
Revenues:		
Americas	\$ 44,014	\$ 52,622
EMEA	37,308	28,746
Asia/Pacific	9,341	8,580
	\$ 90,663	\$ 89,948
Operating income (loss):		
Americas	\$ 1,338	\$ 7,316
EMEA	(2,181)	(8,354)
Asia/Pacific	(1,233)	1,249
	\$ (2,076)	\$ 211

No single customer accounted for more than 10% of the Company's consolidated revenues during the three months ended March 31, 2008 or 2007. Aggregate revenues attributable to customers in the United Kingdom accounted for 11.4% and 6.8% of the Company's consolidated revenues during the three months ended March 31, 2008 and 2007, respectively.

14. Income Taxes

The effective tax rate for the three months ended March 31, 2008 is not calculable due to the pretax loss and tax charge reported for the period as a result of losses in tax jurisdictions for which we receive no tax benefit offset by income in tax jurisdictions in which we accrued tax expense and the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities. The

Edgar Filing: ACTUATE CORP - Form 10-K

effective tax rate for the three months ended March 31, 2007 of approximately 41.6% was negatively impacted by losses in foreign countries in which the Company was not able to record tax benefits and by the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S to non-U.S. entities.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). The Company adopted the provision of FIN 48 effective October 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company recognized a decrease to retained earnings of \$3.3 million, which included at October 1, 2007 an increase of \$2.7 million in net unrecognized tax benefits. In addition, reclassification in balance sheet accounts as required by FIN 48 resulted in an increase in noncurrent deferred income tax assets of \$4.3 million, an increase in other long term assets of \$1.5 million and an increase in other long term liabilities of

\$16.2 million. As of the date of adoption, the Company's gross unrecognized tax benefits totaled \$14.8 million. Of this amount, \$9.0 million represent the net unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate. No material amount of liability was added to the unrecognized tax benefit balance during the quarter.

The Company files income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, and many foreign jurisdictions. The U.S., United Kingdom and Canada are the main taxing jurisdictions in which the Company operates. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that the accruals for income taxes reflect the most probable outcome. The Company will adjust these accruals, as well as the related interest, in light of changing facts and circumstances. The years open for audit varies depending on the tax jurisdiction. In the US, the Company's tax returns for years following fiscal year 2003 are open for audit. In the UK, the Company's tax returns for the years following 2002 are open for audit, while in Canada, the Company's tax returns for years following 1999 are open for audit.

The Internal Revenue Service is currently auditing the Company's fiscal year 2005 and 2006 income tax returns. The Company's United Kingdom and Canada income tax returns covering fiscal year 2003 through 2005 and 2000 through 2004, respectively, are also under audit by the applicable tax authorities. The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately \$4.9 million, due to settlement of various audits.

The Company accrues interest related to uncertain tax positions in interest expense or interest income and recognizes penalties related to uncertain tax positions in other income or other expense. As of March 31, 2008, \$1.5 million is accrued for the payment of interest and penalties related to income tax liabilities.

15. Contingencies

Legal Proceedings

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. Other than as described below, the Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, the Company believes would be likely to have a material adverse effect on the Company's financial condition or results of operations.

Class Action Litigation. In November 2002, two class action complaints were filed in the U.S. District Court for the District of Nebraska (the Court) against the Company and certain individuals alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Pursuant to a Court order, the two complaints were consolidated as *Desert Orchid Partners v. Transaction Systems Architects, Inc., et al., with Genesee County Employees Retirement System* designated as lead plaintiff. The Second Amended Consolidated Class Action Complaint previously alleged that during the purported class period, the Company and the named defendants misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. That Complaint also alleged that, prior to August 2002, the purported truth regarding the Company's financial condition had not been disclosed to the market. The Company and the individual defendants initially filed a motion to dismiss the lawsuit. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, the Company's former president and chief executive officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including the Company.

On July 1, 2004, lead plaintiff filed a motion for class certification wherein, for the first time, lead plaintiff sought to add an additional class representative, Roger M. Wally. On August 20, 2004, defendants filed their opposition to the motion. On March 22, 2005, the Court issued an order certifying the class of persons that purchased the Company's common stock from January 21, 1999 through November 18, 2002.

On January 27, 2006, the Company and the individual defendants filed a motion for judgment on the pleadings, seeking a dismissal of the lead plaintiff and certain other class members, as well as a limitation on damages based upon plaintiffs' inability to establish loss causation with respect to a large portion of their claims. On February 6, 2006, additional class representative Roger M. Wally filed a motion to withdraw as a class representative and class member. On April 21, 2006, and based upon the pending motion for judgment, a motion to intervene as a class representative was filed by the Louisiana District Attorneys Retirement System (LDARS). LDARS previously attempted to be named as lead plaintiff in the case. On July 5, 2006, the Magistrate denied LDARS' motion to intervene, which LDARS appealed to the District Judge.

On May 17, 2006, the Court denied the motion for judgment on the pleadings as being moot based upon the Court's granting lead plaintiff leave to file a Third Amended Complaint (Third Complaint), which it did on May 31, 2006. The Third Complaint alleges the same misrepresentations as described above, while simultaneously alleging that the purported truth about the Company's financial condition was being disclosed throughout that time, commencing in April 1999. The Third Complaint sought unspecified damages, interest, fees, and costs.

On June 14, 2006, the Company and the individual defendants filed a motion to dismiss the Third Complaint pursuant to Rules 8 and 12 of the Federal Rules of Civil Procedure. Lead Plaintiff opposed the motion. Prior to any ruling on the motion to dismiss, on November 7, 2006, the parties entered into a Stipulation of Settlement for purposes of settling all of the claims in the Class Action Litigation, with no admissions of wrongdoing by the Company or any individual defendant. The settlement provides for an aggregate cash payment of \$24.5 million of which, net of insurance, the Company contributed approximately \$8.5 million. The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against the Company and the individual defendants.

On March 27, 2007, James J. Hayes, a class member, filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit appealing the Court's order. The Company responded to this appeal in accordance with the Court of Appeals' orders and procedures. The appeal has not yet been decided.

16. International Business Machines Corporation Alliance

On December 16, 2007, the Company entered into an Alliance Agreement (Alliance) with International Business Machines Corporation (IBM) relating to joint marketing and optimization of the Company's electronic payments application software and IBM's middleware and hardware platforms, tools and services. On March 17, 2008, the Company and IBM entered into Amendment No. 1 to the Alliance (Amendment No.1) and included hereafter in all references to the Alliance), which changed the timing of certain payments to be made by IBM. Under the terms of the Alliance, each party will retain ownership of its respective intellectual property and will independently determine product offering pricing to customers. In connection with the formation of the Alliance, the Company granted warrants to IBM to purchase up to 1,427,035 shares of the Company's common stock at a price of \$27.50 per share and up to 1,427,035 shares of the Company's common stock at a price of \$33.00 per share. The warrants are exercisable for five years.

Under the terms of the Alliance, on December 16, 2007, IBM paid the Company an initial non-refundable payment of \$33.3 million in consideration for the estimated fair value of the warrants described above. The fair value of the warrants granted, as subsequently determined by an independent third party appraiser, is approximately \$24.0 million and is recorded as common stock warrants in the accompanying consolidated balance sheet as of March 31, 2008 and December 31, 2007. The remaining balance of \$9.3 million is related to prepaid incentives and other obligations and is recorded in the Alliance agreement liability in the accompanying consolidated balance sheet as of December 31, 2007.

During the three months ended March 31, 2008, the Company received an additional payment from IBM of \$37.3 million per Amendment No.1. This payment has been recorded in the Alliance agreement liability in the accompanying consolidated balance sheet as of March 31, 2008. This amount represents a prepayment of funding for technical enablement milestones and incentive payments to be earned under the Alliance and related agreements and accordingly a portion of this payment is subject to refund by the Company to IBM under certain circumstances. As of March 31, 2008, \$20.7 million is refundable subject to achievement of future milestones.

Edgar Filing: ACTUATE CORP - Form 10-K

The future costs incurred by the Company related to internally developed software associated with the technical enablement milestones will be capitalized in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* (SFAS 86), when the resulting product reaches technological feasibility. Prior to reaching technological feasibility, the costs will be expensed as incurred. The Company will receive partial reimbursement from IBM for expenditures incurred if certain technical enablement milestones and delivery dates specified in the Alliance are met. Reimbursements from IBM for expenditures determined to be direct and incremental to satisfying the technical enablement milestones will be used to offset the amounts expensed or capitalized as described above but not in excess of non-refundable cash received or receivable. During the three months ended March 31, 2008, the Company incurred \$1.1 million of costs related to fulfillment of the technical enablement milestones. The reimbursement of these costs was recorded as a reduction of the Alliance agreement liability and a reduction in capitalizable costs under SFAS 86 in the accompanying consolidated balance sheet as of March 31, 2008, and a reduction of operating expenses in the accompanying consolidated statements of operations for the three months ended March 31, 2008.

Also, during the three months ended March 31, 2008, the Company reached certain technical enablement milestones and has recognized an increase in the Alliance agreement liability of \$0.2 million and has recorded the receivable in billed receivables in the accompanying consolidated balance sheet as of March 31, 2008.

IBM will pay the Company additional amounts upon meeting certain prescribed technical enablement obligations and incentives payable upon IBM recognizing revenue from end-user customers as a result of the Alliance. The revenue related to the incentive payments will be deferred until the Company has reached substantial completion of the technical enablement milestones. Subsequent to reaching substantial completion, revenue will be recognized as sales incentives are earned.

The stated initial term of the Alliance is five years, subject to extension for successive two year terms if not previously terminated by either party and subject to earlier termination for cause.

17. International Business Machines Corporation Information Technology Outsourcing Agreement

On March 17, 2008, the Company entered into a Master Services Agreement (Outsourcing Agreement) with IBM to outsource the Company's internal information technology (IT) environment to IBM. Under the terms of the Outsourcing Agreement, IBM will provide the Company with global IT infrastructure services including the following services, which services are currently provided by the Company: cross functional delivery management services, asset management services, help desk services, end user services, server system management services, storage management services, data network services, enterprise security management services and disaster recovery/business continuity plans (collectively, the IT Services). The Company will retain responsibility for its security policy management and on-demand business operations.

The initial term of the Outsourcing Agreement is seven years, commencing on March 17, 2008. The Company has the right to extend the Outsourcing Agreement for one additional one-year term unless otherwise terminated in accordance with the terms of the Outsourcing Agreement. Under the Outsourcing Agreement, the Company retains the right to terminate the agreement both for cause and for its convenience. However, upon any termination of the Outsourcing Agreement by the Company for any reason (other than for material breach by IBM), the Company will be required to pay a termination charge to IBM, which charge may be material.

The Company will pay IBM for the IT Services through a combination of fixed and variable charges, with the variable charges fluctuating based on the Company's actual need for such services as well as the applicable service levels and statements of work. Based on the currently projected usage of these IT Services, the Company expects to pay \$116 million to IBM in service fees and project costs over the initial seven-year term.

In addition, IBM will provide the Company with certain transition services required to transition the Company's IT operations embodied in the IT Services in accordance with a mutually agreed upon transition plan (the Transition Services). The Company currently expects the Transition Services to be completed approximately 18 months after the effective date of the Outsourcing Agreement and to pay IBM approximately \$8 million for the Transition Services over a period of five years. No Transition Services occurred during the three months ended March 31, 2008.

The Outsourcing Agreement has performance standards and minimum services levels that IBM must meet or exceed. If IBM fails to meet a given performance standard, the Company would, in certain circumstances, receive a credit against the charges otherwise due.

Additionally, the Company has the right to periodically perform benchmark studies to determine whether IBM's price and performance are consistent with the then current market. The Company has the right to conduct such benchmark studies, at its cost, beginning in the second year of the Outsourcing Agreement.

As a result of the Outsourcing Agreement, approximately 20 employees of the Company are expected to become employees of IBM and another 59 positions will be eliminated by the Company. In connection with these actions, the Company will incur approximately \$1.9 million to \$2.3 million of termination costs. During the three months ended March 31, 2008, \$0.5 million of termination costs were recognized in general and administrative expense in the accompanying consolidated statements of operations. The charges, by channel, were as follows: \$0.4 million in the Americas channel and \$0.1 million in the EMEA channel. The remainder of the costs will be recognized over the employees remaining service periods during the second and third quarters of fiscal year 2008.

As of March 31, 2008, \$0.5 million is accrued in accrued employee compensation in the accompanying consolidation balance sheets. The Company anticipates that these amounts will be paid by the end of fiscal 2009. No amounts were paid during the three months ended March 31, 2008.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts, and include words or phrases such as "management anticipates," "we believe," "we anticipate," "we expect," "we plan," "we will," "we are well positioned," and words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, business strategy, business environment and key trends, as well as statements related to expected financial and other benefits from our recent acquisition of Visual Web Solutions, Inc., and Stratasoft Sdn Bhd and those related to our organizational restructuring activities. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of the forward-looking statements in this document may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and our actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Item 1A in the section entitled "Risk Factors - Factors That May Affect Our Future Results or The Market Price of Our Common Stock."

The following discussion should be read together with our financial statements and related notes contained in this report and with the financial statements and related notes and Management's Discussion & Analysis in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, as amended by the Form 10-K/A for the same period filed March 4, 2008, and the Transition Report on Form 10-Q for the three months ended December 31, 2007, and as amended by the Form 10-Q/A for the same period filed March 4, 2008. Results for the three months ended March 31, 2008, are not necessarily indicative of results that may be attained in the future.

Change in Fiscal Year End

Effective January 1, 2008, the Company changed its fiscal year end from September 30 to December 31. The Company's new fiscal year commenced January 1, 2008, and will end on December 31, 2008. This first quarterly report on Form 10-Q compares the financial position as of March 31, 2008, to December 31, 2007 and September 30, 2007, and the results of operations for the three months ended March 31, 2008 with the results of operations for the three months ended March 31, 2007. The Company has changed its fiscal year end to align its sales contracting and delivery processes with its customers and to allow for more effective communication with the capital markets and investment community by being consistent with its peer group.

Overview

As described in Note 2 of the consolidated condensed financial statements, ACI Worldwide, Inc. has restated its previously filed consolidated financial statements as of March 31, 2008, and for the three month period ended March 31, 2008 included in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, which was filed with the Securities and Exchange Commission on May 9, 2008. We identified errors in our financial statements related to \$1.9 million in revenue recognized during the three months ended March 31, 2008 for a specific software project in the Asia/Pacific reportable operating segment that should have been deferred until further project milestones were achieved. In addition, \$0.4 million in expenses should have been deferred related to the same software project. The income tax effect of these errors was approximately \$0.1 million.

We develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments. In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our products are sold and supported through distribution networks covering three geographic regions – the Americas, EMEA and Asia/Pacific. Each distribution network has its own sales force and supplements its sales force with independent reseller and/or distributor networks. Our products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide brand.

We derive a majority of our revenues from non-domestic operations and believe our greatest opportunities for growth exist largely in international markets. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy intended to streamline our supply chain and provide low-cost centers of expertise to support a growing international customer base. A subsidiary in Ireland serves as the focal point for certain international product development and commercialization efforts. This subsidiary oversees remote software development operations in Romania and elsewhere and manages certain of our intellectual property rights. We are also taking a direct selling and support strategy in certain countries where historically we have used third-party distributors to represent our products, in an effort to develop closer relationships with our customers and develop a stronger overall position in those countries. Our principal executive offices are

located in New York state to manage our global infrastructure more strategically.

We have launched a service called ACI On Demand, wherein we will host our payment systems and sell them as a service to banks, retailers and processors.

In March 2008, we announced to customers the timelines for maturing many of our retail payment engines. These products were developed or acquired by ACI over several years and include BASE24, TRANS24-eft, ON/2, OpeN/2 and ASx. Our strategy is to help customers migrate to our next-generation BASE24-eps solution as we discontinue standard support for previous products. This will allow customers to take advantage of our newest technology and allow ACI to more efficiently focus R&D investment.

Key trends that currently impact our strategies and operations include:

- **Increasing electronic payment transaction volumes.** Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. We commissioned an industry study that determined that electronic payment volumes are expected to grow at approximately 13% per year from 2004 through 2009, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.
- **Increasing competition.** The electronic payments market is highly competitive and subject to rapid change. Our competition comes from in-house information technology departments, third-party electronic payment processors and third-party software companies located both within and outside of the United States. Many of these companies are significantly larger than we are and have significantly greater financial, technical and marketing resources. As electronic payment transaction volumes increase, third-party processors tend to provide competition to our solutions, particularly among customers that do not seek to differentiate their electronic payment offerings. As consolidation in the financial services industry continues, we anticipate that competition for those customers will intensify.
- **Aging payments software.** In many markets, electronic payments are processed using software developed by internal information technology departments, much of which was originally developed over ten years ago. Increasing transaction volumes, industry mandates and the overall costs of supporting these older technologies often serve to make these systems obsolete, creating opportunities for us to replace aging software with newer and more advanced products.
- **Adoption of open systems technology.** In an effort to leverage lower-cost computing technologies and current technology staffing and resources, many financial institutions, retailers and electronic payment processors are seeking to transition their systems from proprietary technologies to open technologies such as Windows, UNIX and Linux. Our continued investment in open systems technologies is, in part, designed to address this demand.

- **Electronic payments fraud and compliance.** As electronic payment transaction volumes increase, criminal elements continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, retailers and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions. Due to concerns with international terrorism and money laundering, financial institutions in particular are being faced with increasing scrutiny and regulatory pressures. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payment fraud and compliance activity.
- **Adoption of smart card technology.** In many markets, card issuers are being required to issue new cards with embedded chip technology. Chip-based cards are more secure, harder to copy and offer the opportunity for multiple functions on one card (e.g. debit, credit, electronic purse, identification, health records, etc.). The EMV standard for issuing and processing debit and credit card transactions has emerged as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in electronic payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g., chip card readers in ATM s and POS devices). We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.
- **Single Euro Payments Area (SEPA) and Faster Payments Mandates.** The SEPA and Faster Payments initiatives, primarily focused on the European Economic Community and the United Kingdom, are designed to

facilitate lower costs for cross-border payments and reduce timeframes for settling electronic payment transactions. Our retail and wholesale banking solutions provide key functions that help financial institutions address these mandated regulations.

- **Financial institution consolidation.** Consolidation continues on a national and international basis, as financial institutions seek to add market share and increase overall efficiency. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may result in a smaller number of existing and potential customers for our products and services. Consolidation of two of our customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of our products. Additionally, if a non-customer and a customer combine and the combined entity in turn decides to forego future use of our products, our revenue would decline. Conversely, we could benefit from the combination of a non-customer and a customer when the combined entity continues use of our products and, as a larger combined entity, increases its demand for our products and services. We tend to focus on larger financial institutions as customers, often resulting in our solutions being the solutions that survive in the consolidated entity.
- **Electronic payments convergence.** As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common electronic payment functions such as authentication, authorization, routing and settlement will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels and manage enterprise risk. Our organizational structure is, in part, focused on this trend, by facilitating the delivery of integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than we are and have significantly greater financial, technical and marketing resources.

Several other factors related to our business may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition in the software industry are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as maturity of the software product licensed, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenue related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. Additionally, while the majority of our contracts are denominated in the United States dollar, a substantial portion of our sales are made, and some of our expenses are incurred, in the local currency of countries other than the United States. Fluctuations in currency exchange rates in a given period may result in the recognition of gains or losses for that period. Also during the year ended September 30, 2007, we entered into two interest rate swaps with a commercial bank whereby we pay a fixed rate of 5.375% and 4.90% and receive a floating rate indexed to the three-month LIBOR from the counterparty on a notional amount of \$75 million and forecasted borrowings of \$50 million, respectively. Fluctuations in interest rates in a given period may result in the recognition of gains or losses for that period.

We continue to seek ways to grow through both organic sources and acquisitions. We continually look for potential acquisitions designed to improve our solutions breadth or provide access to new markets. As part of our strategy, we seek acquisition candidates that are strategic, capable of being integrated into our operating environment, and financially accretive to our financial performance.

International Business Machines Corporation Alliance

On December 16, 2007, we entered into an Alliance Agreement (Alliance) with International Business Machines Corporation (IBM) relating to joint marketing and optimization of our electronic payments application software and IBM s middleware and hardware platforms, tools and services. On March 17, 2008, the Company and IBM entered into Amendment No. 1 to the Alliance (Amendment No. 1 and included hereafter in all references to the Alliance), which changed the timing of certain payments to be made by IBM. Under the terms of the Alliance, each party will retain ownership of its respective intellectual property and will independently determine product offering pricing to customers. In connection with the formation of the Alliance, we granted warrants to IBM to purchase up to 1,427,035 shares of the Company s common stock at a price of \$27.50 per share and up to 1,427,035 shares of the Company s common stock at a price of \$33.00 per share. The warrants are exercisable for five years.

The stated initial term of the Alliance is five years, subject to extension for successive two year terms if not previously terminated by either party and subject to earlier termination for cause.

During the three months ended March 31, 2008, the Company received an additional payment from IBM of \$37.3 million per Amendment No.1. This payment has been recorded in the Alliance agreement liability in the accompanying consolidated balance sheet as of March 31, 2008. This amount represents a prepayment of funding for technical enablement milestones and incentive payments to be earned under the Alliance and related agreements and accordingly a portion of this payment is subject to refund by the Company to IBM under certain circumstances. As of March 31, 2008, \$20.7 million is refundable subject to achievement of future milestones.

International Business Machines Corporation Outsourcing Agreement

On March 17, 2008, we entered into a Master Services Agreement (Outsourcing Agreement) with IBM to outsource our internal information technology (IT) environment to IBM. Under the terms of the Outsourcing Agreement, IBM will provide us with global IT infrastructure services including the following services, which services are currently provided by the company s employees: cross functional delivery management services, asset management services, help desk services, end user services, server system management services, storage management services, data network services, enterprise security management services and disaster recovery/business continuity plans (collectively, the IT Services). We will retain responsibility for our security policy management and on-demand business operations.

The initial term of the Outsourcing Agreement is seven years, commencing on March 17, 2008. We have the right to extend the Outsourcing Agreement for one additional one-year term unless otherwise terminated in accordance with the terms of the Outsourcing Agreement. Under the Outsourcing Agreement, we retain the right to terminate the agreement both for cause and for its convenience. However, upon any termination of the Outsourcing Agreement by us for any reason (other than for material breach by IBM), we will be required to pay a termination charge to IBM, which charge may be material.

We will pay IBM for the IT Services through a combination of fixed and variable charges, with the variable charges fluctuating based on our actual need for such services as well as the applicable service levels and statements of work. Based on the currently projected usage of these IT Services, we expect to pay \$116 million to IBM in service fees and project costs over the initial seven-year term.

In addition, IBM will provide us with certain transition services required to transition our IT operations embodied in the IT Services in accordance with a mutually agreed upon transition plan (the Transition Services). We currently expect the Transition Services to be completed approximately 18 months after the effective date of the Outsourcing Agreement and to pay IBM approximately \$8 million for the Transition Services over a period of five years. No Transition Services occurred during the three months ended March 31, 2008.

To protect our expectations regarding IBM s performance, the Outsourcing Agreement has performance standards and minimum services levels that IBM must meet or exceed. If IBM fails to meet a given performance standard, we would, in certain circumstances, receive a credit against the charges otherwise due.

Additionally, to assure that the charges under the Outsourcing Agreement do not become significantly higher than the market rate for such services, we have the right to periodically perform benchmark studies to determine whether IBM s price and performance are consistent with the

then current market. We have the right to conduct such benchmark studies, at its cost, beginning in the second year of the Outsourcing Agreement.

As a result of the Outsourcing Agreement, approximately 20 employees are expected to become employees of IBM and another 59 positions will be eliminated.

Acquisitions

On February 7, 2007, we acquired Visual Web Solutions, Inc (Visual Web). Visual Web markets trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region. Visual Web had sales and customer support office in Singapore, and a product development facility in Bangalore, India. The aggregate purchase price of Visual Web, including direct costs of the acquisition, was \$8.3 million, net of \$1.1 million of cash acquired

On April 2, 2007, we acquired Stratasoft Sdn. Bhd. (Stratasoft). Stratasoft was a Kuala Lumpur based company focused on the provision of mainframe based payments systems to the Malaysian market. Prior to the acquisition, Stratasoft had been a distributor of our OCM 24 product within the Malaysian market since 1995. The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was \$2.5 million, net of \$0.7 million of cash acquired.

Backlog

Included in backlog estimates are all software license fees, maintenance fees and services specified in executed contracts, as well as revenues from assumed contract renewals to the extent that we believe recognition of the related revenue will occur within the corresponding backlog period. We have historically included assumed renewals in backlog estimates based upon automatic renewal provisions in the executed contract and our historic experience with customer renewal rates.

Our 60-month backlog estimate represents expected revenues from existing customers using the following key assumptions:

- Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.
- License and facilities management arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
- Non-recurring license arrangements are assumed to renew as recurring revenue streams.
- Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.
- Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.

In computing our 60-month backlog estimate, the following items are specifically not taken into account:

- Anticipated increases in transaction volumes in customer systems.
- Optional annual uplifts or inflationary increases in recurring fees.
- Services engagements, other than facilities management, are not assumed to renew over the 60-month backlog period.
- The potential impact of merger activity within our markets and/or customers is not reflected in the computation of our 60-month backlog estimate.

For the three months ended December 31, 2007, we completed a comprehensive review of the assumptions used and data required in computing our backlog estimates. The 60-month and 12-month backlog estimates set forth below for the period ended September 30, 2007 have been revised to reflect these adjustments. The revisions resulted in an increase in the 60-month backlog estimate of \$14 million and a decrease in the 12-month backlog estimate of \$2.5 million, the majority of which is monthly recurring revenue for the period ended September 30, 2007.

The review identified two categories of adjustments which are reflected in the above revision:

- Adjustments due to inaccurate or incomplete data resulting in a historical over-statement of previously reported backlog estimates, and
- Adjustments required to conform with the recently adopted backlog policy resulting in a historical under-statement of previously reported backlog estimates.

While this review is complete and we do not expect further adjustments to previously reported backlog estimates, we continue to review the processes, procedures, tools, and assumptions used in preparing backlog estimates.

In addition, we also completed a review of our customer renewal experience over the 12-month period ended December 31, 2007. The impact of this review resulted in a revision to the renewal assumptions used in computing the 60-month and 12-month backlog estimates. The company expects to perform an annual review of customer renewal experience. In the event a revision to renewal assumptions is determined to be necessary, prior periods will be adjusted for comparability purposes.

Edgar Filing: ACTUATE CORP - Form 10-K

The following table sets forth our 60-month backlog estimate, by geographic region, as of March 31, 2008, December 31, 2007 and September 30, 2007 (in millions):

	March 31, 2008 (As restated)	December 31, 2007	September 30, 2007
Americas	\$ 724	\$ 733	\$ 717
EMEA	522	504	489
Asia/Pacific	153	143	135
Total	\$ 1,399	\$ 1,380	\$ 1,341

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month backlog estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and processing services fees. Non-recurring revenues include other software license fees and services. Amounts included in our 12-month backlog estimate assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic region, as of March 31, 2008, December 31, 2007 and September 30, 2007 (in millions):

	March 31, 2008			December 31, 2007			September 30, 2007		
	Monthly Recurring	Non- Recurring (As restated)	Total (As restated)	Monthly Recurring	Non- Recurring	Total	Monthly Recurring	Non- Recurring	Total
Americas	\$ 132	\$ 35	\$ 167	\$ 130	\$ 30	\$ 160	\$ 125	\$ 34	\$ 159
EMEA	76	68	144	73	66	139	70	66	136
Asia/Pacific	27	11	38	26	11	37	25	8	33
Total	\$ 235	\$ 114	\$ 349	\$ 229	\$ 107	\$ 336	\$ 220	\$ 108	\$ 328

Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions as described above. These assumptions may turn out to be inaccurate or wrong, including for reasons outside of management's control. For example, our customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or we may experience delays in the development or delivery of products or services specified in customer contracts which may cause the actual renewal rates and amounts to differ from historical experiences. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that amounts included in backlog estimates will actually generate the specified revenues or that the actual revenues will be generated within the corresponding 12-month or 60-month period. Additionally, because backlog estimates are operating metrics, the estimates are not subject to the same level of internal review or controls as a GAAP financial measure.

RESULTS OF OPERATIONS

The following table presents the consolidated statements of operations as well as the percentage relationship to total revenues of items included in our Consolidated Statements of Operations (amounts in thousands):

	2008		Three Months Ended March 31,		2007	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
(As restated)						
Revenues:						
Initial license fees (ILFs)	\$ 20,954	23.1%	\$ 23,259	25.9%		
Monthly license fees (MLFs)	16,785	18.5%	15,265	17.0%		
Software license fees	37,739	41.6%	38,524	42.8%		
Maintenance fees	31,437	34.7%	29,901	33.2%		
Services	21,487	23.7%	21,523	23.9%		
Total revenues	90,663	100.0%	89,948	100.0%		
Expenses:						
Cost of software licenses fees	12,491	13.5%	11,193	12.4%		
Cost of maintenance and services	28,265	31.2%	23,351	26.0%		
Research and development	12,553	13.6%	12,041	13.4%		
Selling and marketing	16,750	18.1%	16,799	18.7%		
General and administrative	22,680	24.5%	26,353	29.3%		
Total expenses	92,739	102.3%	89,737	99.8%		
Operating income	(2,076)	-2.3%	211	0.2%		
Other income (expense):						
Interest income	593	0.6%	1,014	1.1%		
Interest expense	(1,366)	-1.5%	(1,597)	-1.8%		
Other, net	(190)	-0.2%	(337)	-0.4%		
Total other income (expense)	(963)	-1.0%	(920)	-1.0%		
Loss before income taxes	(3,039)	-3.4%	(709)	-0.8%		
Income tax expense (benefit)	1,862	2.1%	(295)	-0.3%		
Net loss	\$ (4,901)	-5.4%	\$ (414)	-0.5%		

Revenues

Total revenues for the three months ended March 31, 2008 increased \$0.7 million, or 0.8%, as compared to the same period of 2007. Included in the three months ended March 31, 2008 revenue with no corresponding revenue in the same period of 2007 was approximately \$0.4 million of revenue related to the acquisition of Stratasoft. Also included was \$0.6 million of revenue in the three months ended March 31, 2008 related to the acquisition of Visual Web, compared to \$0.2 million of revenue for two months of the corresponding period of 2007. Excluding the impact of the acquired businesses, total revenues increased primarily as a result of a \$1.2 million, or 4.1%, increase in maintenance fee revenues, partially offset by a \$0.8 million, or 2.1%, decrease in software license fees revenue and a \$0.5 million, or 2.2%, decrease in services revenue.

Edgar Filing: ACTUATE CORP - Form 10-K

The increase in software license fee revenues, excluding the impact of Visual Web and Stratasoft, during the three months ended March 31, 2008, as compared to the same period of 2007, is primarily due to a \$1.5 million or 10.0% increase in monthly license fees and monthly initial license fees. The growth is in the Americas and EMEA reportable operating segments, while the Asia/Pacific reportable operating segment remained consistent. There was a \$2.3 million or 9.9% decline in initial license fee and capacity revenues. Activity during the quarter included a significant capacity event in the EMEA reportable operating segment, which was offset by the timing of such events in the Americas reportable operating segment. The increases in capacity revenue in the EMEA reportable operating segment is primarily due to increased capacity requirements for existing customers which are often combined with the renewal of

the license term.

The increase in maintenance fee revenues, excluding the impact of Visual Web and Stratasoft, during the three months ended March 31, 2008, as compared to the same period of 2007, is primarily a result of an increase in the number of customers that achieved live status in all three operating segments subsequent to March 31, 2007.

Services revenues, excluding the impact of Visual Web and Stratasoft, declined slightly for the three months ended March 31, 2008, as compared to the same period of 2007. Processing services increased by \$1.0 million, which was partially offset by a \$0.5 million decline in implementation services. This increase was driven primarily by Enterprise Banker application services growth and increased revenue from ACI On-Demand offerings, which was offset by a decline of \$1.0 million due to the termination of a significant facilities management contract in Canada. The decline in implementation services is related to the timing of project completion which drives revenue recognition for significant customer projects.

Expenses

Total operating expenses for the three months ended March 31, 2008 increased \$3.0 million, or 3.3%, as compared to the same period of 2007. Included in the three months ended March 31, 2008 operating expenses with no corresponding amount in the same period of 2007 was approximately \$0.6 million of expenses related to the acquisition of Stratasoft. Also included was \$1.2 million of expenses in the three months ended March 31, 2008 related to the acquisition of Visual Web, compared to \$0.7 million of expenses for two months of the corresponding period of 2007.

Excluding the impact of the acquired businesses, total expenses increased primarily as a result of a \$4.5 million, or 19.5%, increase in cost of maintenance and services, a \$1.1 million, or 9.6% increase in cost of software, offset by a \$3.8 million, or 14.5%, decrease in general and administrative costs.

Cost of Software

Cost of software represents the costs associated with maintaining software products that have already been developed. It represents software management or the overhead for software development. Examples of this include product management, documentation, publications and education. Cost of software for the three months ended March 31, 2008 increased \$1.3 million, or 11.6%, as compared to the same period of 2007. Expenses of \$0.3 million related to acquired businesses were incurred during the three months ended March 31, 2008 compared to \$31,000 in the corresponding period of 2007. The remaining increase is driven by our decision to reallocate resources from other functions in the business (primarily research and development, cost of maintenance and services, and sales and marketing) to invest in the Global Product Management function. This is consistent with our increased focus on the market performance and financial contribution of multi-product solutions.

Cost of Maintenance and Services

Cost of maintenance and services includes both the costs of maintaining our software products at customer sites as well as the service costs required to deliver, install and support software at customer sites. Maintenance costs include the efforts associated with providing the customer

Edgar Filing: ACTUATE CORP - Form 10-K

with upgrades, 24-hour Helpdesk, post go-live (remote) support and production-type support for software that was previously installed at a customer location. Service costs include human resource costs and other incidental costs such as travel and training required for both pre go-live and post go-live support. Such efforts include project management, delivery, product customization and implementation, installation support, consulting, configuration, and on-site support. Cost of maintenance and services for the three months ended March 31, 2008 increased \$4.9 million, or 21.2%, as compared to the same period of 2007. Expenses of \$0.5 million related to acquired businesses were incurred during the three months ended March 31, 2008 as compared to \$0.1 million in the corresponding period of 2007. The remaining increase is driven by investment in additional personnel and software maintenance costs associated with ACI On Demand as well as investment in the EMEA professional services organization.

Research and Development

Research and development (R&D) are primarily human resource costs related to the creation of new products as well as improvements made to existing products. Continued R&D effort on existing products addresses issues, if any, related to regulatory requirements and processing mandates as well as compatibility with new operating system releases and generations of hardware. R&D costs for the three months ended March 31, 2008 increased \$0.5 million, or 4.3%, as compared to the same period of 2007. R&D expenses of \$0.8 million related to acquired businesses were incurred during the three months ended March 31, 2008 as compared to \$0.3 million in the corresponding period of 2007.

Selling and Marketing

Selling and marketing includes both the costs related to selling our products to current and prospective customers as well as the costs related to promoting the company, its products and the research efforts required to measure customers' future needs and

satisfaction levels. Selling costs are primarily the human resource and travel costs related to the effort expended to license our products and services to current and potential clients within defined territories and/or industries as well as the management of the overall relationship with customer accounts. Selling costs also include the costs associated with assisting distributors in their efforts to sell our products and services in their respective local markets. Marketing costs include costs needed to promote the company and its products as well as perform or acquire market research to help the company better understand what products its customers are looking for in the future. Marketing costs also include the costs associated with measuring customers' opinions toward the company, its products and personnel. Selling and marketing costs for the three months ended March 31, 2008 decreased \$0.1 million, or 0.3%, as compared to the same period of 2007. Selling and marketing expenses of \$0.1 million related to acquired businesses were incurred during the three months ended March 31, 2008 as compared to \$0.3 million in the corresponding period of 2007. Additionally, a \$1.7 million decrease in commissions was driven by a relative decrease in sales activity partly attributable to the change from a fiscal year to a calendar year-end, which was offset by increased expenses related to support of the IBM Alliance as well as timing of annual kick-off meetings.

General and Administrative

General and administrative expenses are primarily human resource costs including executive salaries and benefits, personnel administration costs, and the costs of staff support functions such as legal, administrative, human resources and finance and accounting. General and administrative costs for the three months ended March 31, 2008 decreased \$3.7 million, or 13.9%, as compared to the same period of 2007. General and administrative expenses of \$0.1 million related to acquired businesses were incurred during the three months ended March 31, 2008 as compared to zero in the corresponding period of 2007. Approximately \$5.9 million of the expenses incurred in the three months ended March 31, 2007, with no corresponding amount during the same period in 2008, related to the historical stock option review. This was partially offset by an increase in certain professional fees.

Other Income and Expense

Other income and expense includes interest income and expense, foreign currency gains and losses, and other non-operating items. Fluctuating currency rates impacted the three months ended March 31, 2008 by \$3.7 million in net foreign currency gains, as compared with \$0.3 million in net losses during the same period in 2007. A \$3.7 million loss on change in fair value of interest rate swaps was incurred during the three months ended March 31, 2008 with no corresponding amount in the same period of 2007. Interest income for the three months ended March 31, 2008 decreased \$0.4 million or 41.5% as compared to the corresponding period of 2007 as a result of lower average daily cash balances and lower interest rates. Interest expense decreased \$0.2 million or 14.5% for the three months ended March 31, 2008 as compared to the corresponding period of 2007 as a result of lower interest rates.

Income Taxes

The effective tax rate for the three months ended March 31, 2008 is not calculable due to the pretax loss and tax charge reported for the period as a result of losses in tax jurisdictions for which we receive no tax benefit offset by income in tax jurisdictions in which we accrued tax expense and the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities. The effective tax rate for the three months ended March 31, 2007 of approximately 41.6% was negatively impacted by losses in foreign countries in which the Company was not able to record tax benefits and by the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities.

Segment Results

The prior period amounts for operating income (loss) have been reclassified to conform to current period presentation, which reflect a change in the allocation of certain costs related to acquired businesses across the reportable operating segments versus solely in the region in which the acquired business was located in when acquired. The following table presents revenues and operating income for the periods indicated by geographic region (in thousands):

	Three Months Ended March 31,	
	2008 (As restated)	2007
Revenues:		
Americas	\$ 44,014	\$ 52,622
EMEA	37,308	28,746
Asia/Pacific	9,341	8,580
	\$ 90,663	\$ 89,948
Operating income (loss):		
Americas	\$ 1,338	\$ 7,316
EMEA	(2,181)	(8,354)
Asia/Pacific	(1,233)	1,249
	\$ (2,076)	\$ 211

Revenues increased in the EMEA reportable operating segment by \$8.6 million, or 29.8%, and in the Asia/Pacific reportable operating segment by \$0.8 million, or 8.9%, for the three months ended March 31, 2008 compared to the same period in 2007. Revenue for the Americas reportable operating segment declined by \$8.6 million or 16.4%, during the three months ended March 31, 2008 compared to the same period in 2007. These results were driven primarily by the timing of license fee and capacity revenues within the reporting operating segments.

Operating income declined in the Americas reportable operating segment by \$6.0 million, or 81.7%, for the three months ended March 31, 2008 compared to the same period in 2007. Operating loss in the EMEA reportable operating segment decreased by \$6.2 million or 73.9% for the three months ended March 31, 2008 as compared to the same period in 2007. The Asia/Pacific reportable operating segment declined from \$1.2 million operating income for the three months ended March 31, 2007 to a net operating loss for the three months ended March 31, 2008. The changes in operating income (loss) are primarily driven by the timing of license fee and capacity revenues. This is offset by shared functions that are allocated based on a percentage of revenue such as Global Product Delivery and Development, Global Customer Operations and Global Product Management. Corporate overhead is allocated as a percentage of headcount and remains consistent period over period.

Liquidity and Capital Resources

As of March 31, 2008, our principal sources of liquidity consisted of \$108.7 million in cash and cash equivalents and \$75 million of unused borrowings under our revolving credit facility. We had bank borrowings of \$75 million outstanding under our revolving credit facility as of March 31, 2008.

Edgar Filing: ACTUATE CORP - Form 10-K

In December 2004, we announced that our board of directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$80.0 million of our common stock. In May 2006, our board of directors approved an increase of \$30.0 million to the stock repurchase program, bringing the total of the approved plan to \$110.0 million. In March 2007, our board of directors approved an increase of \$100 million to our current repurchase authorization, bringing the total authorization to \$210 million. Under the program to date, we have purchased approximately 6,049,484 shares for approximately \$154 million. The maximum remaining dollar value of shares authorized for purchase under the stock repurchase program was approximately \$57 million as of March 31, 2008. Purchases will be made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations.

We may also decide to use cash to acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies.

Cash Flows

The following table sets forth summary cash flow data for the periods indicated. Please refer to this summary as you read our discussion of the sources and uses of cash in each period.

	Three Months Ended March 31,	
	2008	2007
	(amounts in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 46,524	\$ 16,268
Investing activities	(2,302)	(9,509)
Financing activities	(29,806)	(472)

Net cash flows provided by operating activities for the three months ended March 31, 2008 amounted to \$46.5 million as compared to \$16.3 million during the same period in 2007. The comparative period increase in net cash flows from operating activities of \$30.3 million was principally the result of the following items: \$36.1 million received from IBM primarily for prepayment of estimated incentives payments pursuant to the terms of the Alliance as amended, an increase in cash collections on customer receivables of \$9.0 million in the three months ended March 31, 2008 and an increase in non cash expenses of \$2.4 million, such as depreciation, amortization, change in fair value of interest rate swaps and deferred taxes in the three months ended March 31, 2008 as compared to the same period in 2007. These items were partially offset by a net loss of \$4.9 million (as restated) for the three months ended March 31, 2008 compared to a net loss of \$0.4 million for the same period of 2007, a \$5.4 million (as restated) decrease in deferred revenue growth, and an increase in accruals for other expenses of \$7.3 million (as restated).

Net cash flows used by investing activities totaled \$2.3 million in the three months ended March 31, 2008 as compared to \$9.5 million used in investing activities during the same period in 2007. During the three months ended March 31, 2008, we used cash of \$2.6 million to purchase software, property and equipment and \$0.9 million for costs related to fulfillment of the technical enablement milestones under the IBM Alliance. These uses of cash were partially offset in the three months ended March 31, 2008, by \$1.2 million received from IBM for reimbursement of estimated capitalizable technical enablement milestones costs pursuant to the terms of the Alliance. During the three months ended March 31, 2007, we used cash of \$1.3 million to purchase software, property and equipment. We also used cash of \$8.2 million for the acquisition of Visual Web during the three months ended March 31, 2007.

Net cash flows used by financing activities totaled \$29.8 million in the three months ended March 31, 2008 as compared to net cash flows used of \$0.5 million during the same period in 2007. In the three months ended March 31, 2008, we used cash of \$30.1 million to purchase shares of our common stock under the stock repurchase program. We also made payments to third-party financial institutions, primarily related to debt and capital leases, totaling \$0.8 million and \$0.5 million during the three months ended March 31, 2008 and 2007, respectively. During the three months ended March 31, 2008, we received proceeds of \$0.4 million, including corresponding excess tax benefits, from the exercises of stock options and \$0.6 million for the issuance of common stock for a purchase under our Employee Stock Purchase Plan.

We also realized a \$2.8 million decrease in cash during the three months ended March 31, 2008 compared to a \$0.2 million decrease during the same period of 2007 related to foreign exchange rate variances.

Edgar Filing: ACTUATE CORP - Form 10-K

We believe that our existing sources of liquidity, including cash on hand and cash provided by operating activities, will satisfy our projected liquidity requirements, which primarily consists of working capital requirements, for the foreseeable future.

Contractual Obligations and Commercial Commitments

We are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes under FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (as amended). The liability for unrecognized tax benefits at March 31, 2008 is \$14.8 million.

Lease Termination

During the three months ended March 31, 2008, we terminated the lease for one of our facilities in Watford, England. Under the terms of the termination agreement, we paid a termination fee of approximately \$0.9 million that was recorded in general and administrative expenses in the accompanying consolidated statements of operations for the three months ended March 31, 2008. Further under the termination agreement, we were relieved of our contractual obligations with respect to the restoration of facilities back to their original condition. As a result, we recognized a gain of approximately \$1.0 million related to the relief from this liability, which is also recorded in general and administrative expenses in the accompanying consolidated statements of operations. At March 31, 2008, December 31, 2007 and September 30, 2007, we had contractual obligations with respect to the restoration of leased facilities of \$1.6 million, \$2.5 million and \$2.6 million, respectively, recorded in other liabilities in the accompanying consolidated balance sheets.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our consolidated financial statements. Actual results could differ from those estimates.

The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See Note 1, *Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, as amended by the Form 10-K/A filed on March 4, 2008, for a further discussion of revenue recognition and other significant accounting policies.

Revenue Recognition

For software license arrangements for which services rendered are not considered essential to the functionality of the software, we recognize revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable, and (3) the fee is fixed or determinable. In most arrangements, because vendor-specific objective evidence of fair value does not exist for the license element, we use the residual method to determine the amount of revenue to be allocated to the license element. Under the residual method, the fair value of all undelivered elements, such as post contract customer support or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element. For software license arrangements in which we have concluded that collectibility issues may exist, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectibility, we consider the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

Our sales focus continues to shift from our more-established products to more complex arrangements involving multiple products inclusive of our BASE24-eps product and less-established (collectively referred to as newer) products. As a result of this shift to newer products and more complex, multiple product arrangements, absent other factors, we initially experience an increase in deferred revenue and a corresponding decrease in current period revenue due to differences in the timing of revenue recognition for the respective products. Revenues from newer products are typically recognized upon acceptance or first production use by the customer whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product, provided all other conditions for revenue recognition have been met. For those arrangements where revenues are being deferred and we determine that related direct and incremental costs are recoverable, such costs are deferred and subsequently expensed as the revenues are recognized. Newer products are continually evaluated by our management and product development personnel to determine when any such product meets specific internally defined product maturity criteria that would support its classification as a mature product. Evaluation criteria used in making this determination include successful demonstration of product features and functionality; standardization of sale, installation, and support functions; and customer acceptance at multiple production site installations, among others. A change in product classification (from newer to mature) would allow us to recognize revenues from new sales of the product upon delivery of the product rather than upon acceptance or first production use by the customer, resulting in earlier recognition of revenues from sales of that product, as well as related costs, provided all other revenue recognition criteria have been met. BASE24-eps was reclassified as a mature product as of October 1, 2006.

When a software license arrangement includes services to provide significant modification or customization of software, those services are not considered to be separable from the software. Accounting for such services delivered over time is referred to as contract accounting. Under contract accounting, we generally use the percentage-of-completion method. Under the percentage-of-completion method, we record revenue for the software license fee and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. Estimated total labor hours for each contract are based on the project scope, complexity, skill level requirements, and similarities with other projects of similar size and scope. For those contracts subject to contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. For arrangements where we believe it is reasonably assured that no loss will be incurred under the arrangement and fair value for maintenance services does not exist, we use a zero margin approach of applying percentage-of-completion accounting until software customization services are completed. We exclude revenues due on extended payment terms from our current percentage-of-completion computation until such time that collection of the fees becomes probable.

We may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate arrangements for revenue recognition purposes. Judgment is required when evaluating the facts and circumstances related to each situation in order to reach appropriate conclusions regarding whether such arrangements are related or separate. Those conclusions can impact the timing of revenue recognition related to those arrangements.

Allowance for Doubtful Accounts

We maintain a general allowance for doubtful accounts based on our historical experience, along with additional customer-specific allowances. We regularly monitor credit risk exposures in our accounts receivable. In estimating the necessary level of our allowance for doubtful accounts, management considers the aging of our accounts receivable, the creditworthiness of our customers, economic conditions within the customer's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. Also, should deterioration occur in general economic conditions, or within a particular industry or region in which we have a number of customers, additional provisions for doubtful accounts may be recorded to reserve for potential future losses. Any such additional provisions would reduce operating income in the periods in which they were recorded.

Intangible Assets and Goodwill

Our business acquisitions typically result in the recording of intangible assets, and the recorded values of those assets may become impaired in the future. As of March 31, 2008, December 31, 2007, and September 30, 2007, our intangible assets, net of accumulated amortization, were \$37.0 million, \$38.1 million, and \$39.7 million, respectively. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect the consolidated financial statements. We assess potential impairments to intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our businesses, market conditions and other factors. Although there are inherent uncertainties in this assessment process, the estimates and assumptions used, including estimates of future cash flows, volumes, market penetration and discount rates, are consistent with our internal planning. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge on all or a portion of our intangible assets. Furthermore, we cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on our reported asset values. Future events could cause us to conclude that impairment indicators exist and that intangible assets associated with acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations. Other intangible assets are amortized using the straight-line method over periods ranging from 18 months to 12 years.

Edgar Filing: ACTUATE CORP - Form 10-K

As of March 31, 2008, December 31, 2007, and September 30, 2007, our goodwill was \$210.0 million, \$206.8 million, and \$205.7 million, respectively. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), we assess goodwill for impairment at least annually or when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. During this assessment, which is completed as of the end of the fiscal year, management relies on a number of factors, including operating results, business plans and anticipated future cash flows.

Stock-Based Compensation

Effective October 1, 2005 we began recording compensation expense associated with stock-based awards in accordance with SFAS No. 123(R). We adopted the modified prospective transition method provided for under SFAS No. 123(R), and consequently have not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock-based awards includes (1) amortization related to the remaining unvested portion of stock-based awards granted prior to September 30, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) amortization related to stock-based awards granted subsequent to September 30, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Under the provisions of SFAS No. 123(R), stock-based compensation cost for stock option awards is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. We recognize stock-based compensation costs for only those shares that are expected to vest. The impact of forfeitures that may occur prior to vesting is estimated and considered in the amount of expense recognized. Forfeiture estimates will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Black-Scholes option-pricing model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially for future awards from that recorded for existing awards.

We also have stock options outstanding that vest upon attainment by us of certain market conditions. In order to determine the grant date fair value of these stock options that vest based on the achievement of certain market conditions, a Monte Carlo simulation model is used to estimate (i) the probability that the performance goal will be achieved and (ii) the length of time required to attain the target market price.

Long term incentive program performance share awards (LTIP Performance Shares) were issued in fiscal 2007, fiscal 2006 and fiscal 2005. These awards are earned based on the achievement over a specified period of performance goals related to certain performance indicators. In order to determine compensation expense to be recorded for these LTIP Performance Shares, each quarter management evaluates the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment.

During the three months ended March 31, 2008, pursuant to our 2005 Incentive Plan, we granted restricted share awards (RSAs). These awards have requisite service periods of four years and vest in increments of 25% on the anniversary dates of the grants. Under each arrangement, stock is issued without direct cost to the employee. We estimate the fair value of the RSAs based upon the market price of our stock at the date of grant. The RSA grants provide for the payment of dividends payable on our common stock, if any, to the participant during the requisite service period (vesting period) and the participant has voting rights for each share of common stock.

Accounting for Income Taxes

Accounting for income taxes requires significant judgments in the development of estimates used in income tax calculations. Such judgments include, but are not limited to, the likelihood we would realize the benefits of net operating loss carryforwards and/or foreign tax credit carryforwards, the adequacy of valuation allowances, and the rates used to measure transactions with foreign subsidiaries. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which the Company operates. The judgments and estimates used are subject to challenge by domestic and foreign taxing authorities. It is possible that either domestic or foreign taxing authorities could challenge those judgments and estimates and draw conclusions that would cause us to incur tax liabilities in excess of, or realize benefits less than, those currently recorded. In addition, changes in the geographical mix or estimated amount of annual pretax income could impact our overall effective tax rate.

Revenue Recognition

To the extent recovery of deferred tax assets is not likely, we record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although we have considered future taxable income along with prudent and feasible tax planning strategies in assessing the need for a valuation allowance, if we should determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to deferred tax assets would be charged to income in the period any such determination was made. Likewise, in the event we are able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase income in the period any such determination was made.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). The Company adopted the provision of FIN 48 effective October 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. We will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact, if any, the adoption of SFAS 160 will have on our consolidated financial statements.

On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS 161). SFAS 161 amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133) and was issued in response to concerns and criticisms about the lack of adequate disclosure of derivative instruments and hedging activities. SFAS 161 requires; (i) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of an entity's overall risk exposure, (ii) quantitative disclosures in tabular format of the fair values of derivative instruments and their gains and losses, and (iii) disclosures about credit-risk related contingent features in derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, but early application is encouraged. The Company is currently evaluating the impact, if any, the adoption of SFAS 161 will have on its consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Excluding the impact of changes in interest rates, there have been no material changes to our market risk for the three months ended March 31, 2008. We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in foreign currency exchange rates. The U.S. dollar is the single largest currency in which our revenue contracts are denominated. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in our products and services being more expensive to a potential foreign customer, and in those instances where our goods and services have already been sold, may result in the receivables being more difficult to collect. Additionally, any decline in the value of the U.S. dollar in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are

Edgar Filing: ACTUATE CORP - Form 10-K

incurred in local currency will have an unfavorable impact to operating margins. We at times enter into revenue contracts that are denominated in the country's local currency, principally in Australia, Canada, the United Kingdom and other European countries. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. Based on our cash investments and interest rates on these investments at March 31, 2008, and if we maintained this level of similar cash

investments for a period of one year, a hypothetical ten percent increase or decrease in interest rates would increase or decrease interest income by approximately \$0.2 million annually.

During the year ended September 30, 2007, we entered into two interest rate swaps with a commercial bank whereby we pay a fixed rate of 5.375% and 4.90% and receive a floating rate indexed to the 3-month LIBOR from the counterparty on a notional amount of \$75 million and \$50 million, respectively. As of March 31, 2008, the fair value liability of the interest rate swaps was approximately \$8.2 million, \$3.8 million and \$4.4 million of which was included in other current liabilities and other noncurrent liabilities, respectively, on the consolidated balance sheet. The potential additional loss in fair value liability of the interest rate swaps resulting from a hypothetical 10 percent adverse change in interest rates was approximately \$0.9 million at March 31, 2008. Because our interest rate swaps do not qualify for hedge accounting, changes in the fair value of the interest rate swaps are recognized in the consolidated statements of operations, along with the related income tax effects.

Subsequent to March 31, 2008, events in the global credit markets have impacted the expectation of near-term variable borrowing rates. As a result, we have experienced a positive impact to the fair value liability of our interest rate swaps. During April 2008, the fair value liability has decreased approximately \$2.0 million from a balance of \$8.2 million as of March 31, 2008 to \$6.2 million as of April 30, 2008.

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157), for financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. We utilize valuation models prepared by a third-party with observable market data inputs to estimate fair value of its interest rate swaps.

Item 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our Principal Executive Officer and Principal Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report, March 31, 2008. Based upon this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective as of that date.

As of September 30, 2007, material weaknesses in internal control over financial reporting related to recognition of revenue and income taxes existed. A material weakness is defined in Public Company Accounting Oversight Board Auditing Standard No. 5 as a deficiency, or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement would not be prevented or detected on a timely basis. In connection with our overall assessment of internal control over financial reporting, we have evaluated the effectiveness of our internal controls as of March 31, 2008 and have concluded that the material weaknesses related to accounting for recognition of revenue and accounting for income taxes were not remediated as of March 31, 2008.

In connection with the filing of this Form 10-Q/A, we have reevaluated our disclosure control and procedures as of March 31, 2008. In addition to the material weaknesses described above, we concluded that the following material weakness in internal control over financial reporting existed as of March 31, 2008:

The Company did not maintain effective policies and procedures related to its accounting for software implementation service and license arrangements in the Asia Pacific region. Specifically, the Company did not have adequate corporate oversight, sufficient local US GAAP knowledge and experience, and sufficient accounting and communication processes in place to ensure proper revenue recognition for service and related license revenue. As a result of this material weakness, the Company restated its March 31, 2008 financial statements to reflect the correction of a material misstatement related to service and licensing revenue and related costs for a software implementation services project that should have been deferred until additional project milestones were achieved.

Changes in Internal Control Over Financial Reporting

Remediation plans established and initiated by management in fiscal year 2007 continue to be implemented. There were no other changes in our internal controls over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

While we have implemented or continue to implement our remediation activities, we believe it will take multiple quarters of effective application of the control activities including adequate testing of such control activities in order for us to revise our conclusion regarding the effectiveness of our internal controls over financial reporting.

Restatement

Subsequently, during the first quarter of 2009, we identified a deficiency within our internal control framework. We determined that our previously reported consolidated financial statements for the three months ended March 31, 2008 required restatement. This Form 10-Q/A restates the March 31, 2008 interim financial statements for the correction of the error. Because the error resulted in the restatement of previously issued financial statements, we determined the deficiency within our internal control framework to be a material weakness.

Refer to Note 2 to the consolidated financial statements for further information regarding this restatement

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Edgar Filing: ACTUATE CORP - Form 10-K

From time to time, we are involved in various litigation matters arising in the ordinary course of our business. Other than as described below, we are not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, we believe would be likely to have a material adverse effect on our financial condition or results of operations.

Class Action Litigation. In November 2002, two class action complaints were filed in the U.S. District Court for the District of Nebraska (the Court) against us and certain individuals alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Pursuant to a Court order, the two complaints were consolidated as *Desert Orchid Partners v. Transaction Systems Architects, Inc., et al., with Genesee County Employees Retirement System* designated as lead plaintiff. The Second Amended Consolidated Class Action Complaint previously alleged that during the purported class period, we and the named defendants misrepresented our historical financial condition, results of operations and our future prospects, and failed to disclose facts that could have indicated an impending decline in our revenues. That Complaint also alleged that, prior to August 2002, the purported truth regarding our financial condition had not been disclosed to the market. We and the individual defendants initially filed a motion to dismiss the lawsuit. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkach, our former president and chief executive officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including us.

On July 1, 2004, lead plaintiff filed a motion for class certification wherein, for the first time, lead plaintiff sought to add an additional class representative, Roger M. Wally. On August 20, 2004, defendants filed their opposition to the motion. On March 22, 2005, the Court issued an order certifying the class of persons that purchased our common stock from January 21, 1999 through November 18, 2002.

On January 27, 2006, we and the individual defendants filed a motion for judgment on the pleadings, seeking a dismissal of the lead plaintiff and certain other class members, as well as a limitation on damages based upon plaintiffs' inability to establish loss causation with respect to a large portion of their claims. On February 6, 2006, additional class representative Roger M. Wally filed a motion to withdraw as a class representative and class member. On April 21, 2006, and based upon the pending motion for judgment, a motion to intervene as a class representative was filed by the Louisiana District Attorneys Retirement System (LDARS). LDARS previously attempted to be named as lead plaintiff in the case. On July 5, 2006, the Magistrate denied LDARS' motion to intervene, which LDARS appealed to the District Judge.

On May 17, 2006, the Court denied the motion for judgment on the pleadings as being moot based upon the Court's granting lead plaintiff leave to file a Third Amended Complaint (Third Complaint), which it did on May 31, 2006. The Third Complaint alleged the same misrepresentations as described above, while simultaneously alleging that the purported truth about our financial condition was being disclosed throughout that time, commencing in April 1999. The Third Complaint sought unspecified damages, interest, fees, and costs.

On June 14, 2006, we and the individual defendants filed a motion to dismiss the Third Complaint pursuant to Rules 8 and 12 of the Federal Rules of Civil Procedure. Lead plaintiff opposed the motion. Prior to any ruling on the motion to dismiss, on November 7, 2006, the parties entered into a Stipulation of Settlement for purposes of settling all of the claims in the Class Action Litigation, with no admissions of wrongdoing by us or any individual defendant. The settlement provides for an aggregate cash

payment of \$24.5 million of which, net of insurance, we contributed approximately \$8.5 million. The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against us and the individual defendants.

On March 27, 2007, James J. Hayes, a class member, filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit appealing the Court's order. We responded to this appeal in accordance with the Court of Appeals' orders and procedures. The appeal has not yet been decided.

Item 1A. RISK FACTORS

Except for the risk factors set forth below, there have been no material changes to the risk factors disclosed in Item 1A of the Company's Form 10-K for the fiscal year ended September 30, 2007. Additional risks and uncertainties, including risks and uncertainties not presently known to us, or that we currently deem immaterial, could also have an adverse effect on our business, financial condition and/or results of operations. The risk factors set forth below were disclosed in the Form 10-K, but have been updated to provide additional information or updates:

Most of our customers are in the banking and financial services industries which are subject to economic changes that could reduce the demand for our products and services.

For the foreseeable future, we expect to derive most of our revenue from products and services we provide to the banking and financial services industries. Changes in economic conditions and unforeseen events like the current mortgage crisis, recession, inflation or changes in bank credit quality in the United States or abroad, could occur and reduce consumers' use of banking services and financial service providers. Any event of this kind, or implementation for any reason by banks or related financial service providers of cost reduction measures, could result in significant decreases in the demand for our products and services and adversely affect our operating results.

Our recent outsourcing agreement with IBM may not achieve the level of savings that we anticipate and many associated changes in systems and personnel are being made, increasing operational and control risk during transition, which may have an impact on the business and its financial condition.

Our seven-year outsourcing agreement with IBM is estimated to deliver operating cost savings for us of \$25 million to \$30 million over the course of the contract and reduce our capital expenditures. The estimated cost savings and capital expenditure reductions are dependent upon many factors, and unanticipated changes in operations may cause actual cost savings and capital expenditure reductions to be substantially less than expected.

In addition, as a part of the outsourcing agreement, many functions are being transitioned to IBM and many new personnel are assuming responsibilities across these functions, increasing the risk of operational delays, potential errors and control failures which may have an impact on us and our financial condition. Additionally, new information technology systems and process changes are also being put into place increasing the risk of operational delays, potential errors and control failures which may have an impact on us and our financial condition.

Except for the risk factors set forth below, there have been no material changes to the risk factors disclosed in Item

Our announcement of the maturity of certain legacy retail payment products may result in decreased customer investment in our products and our strategy to migrate customers to our next generation products may be unsuccessful which may adversely impact our business and financial condition.

Our announcement related to the maturity of certain retail payment engines may result in customer decisions not to purchase or otherwise invest in these engines, related products and/or services. Alternatively, the maturity of these products may result in delayed customer purchase decisions or the renegotiation of contract terms based upon scheduled maturity activities. In addition, our strategy related to migrating customers to our next generation products may be unsuccessful. Reduced investments in our products, deferral or delay in purchase commitments by our customers or our failure to successfully manage our migration strategy could have a material adverse effect on our business, liquidity and financial condition.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

The following table provides information regarding the Company's repurchases of its common stock during the three months ended March 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1 through January 31, 2008		\$		\$ 86,608,000
February 1 through February 29, 2008	826,000	\$ 17.61	826,000	\$ 72,063,000
March 1 through March 31, 2008	813,755	\$ 19.07	813,755	\$ 56,545,000
Total (1)	1,639,755	\$ 18.33	1,639,755	

- (1) In fiscal 2005, we announced that our board of directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$80 million of our common stock, and that we intend to use existing cash and cash equivalents to fund these repurchases. In May 2006, our board of directors approved an increase of \$30 million to the stock repurchase program, bringing the total of the approved program to \$110 million. In March 2007, our board of directors approved an increase of \$100 million to its current repurchase authorization, bringing the total authorization to \$210 million, of which approximately \$57 million remains available. In June 2007, we implemented this previously announced increase to our share repurchase program. There is no guarantee as to the exact number of shares that will be repurchased by us. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our board of directors approved a plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of shares of common stock under the existing stock repurchase program. Under our Rule 10b5-1 plan, we have delegated authority over the timing and amount of repurchases to an independent broker who does not have access to inside information about the Company. Rule 10b5-1 allows us, through the independent broker, to purchase shares at times when we ordinarily would not be in the market because of self-imposed trading blackout periods, such as the time immediately preceding the end of the fiscal quarter through a period three business days following our quarterly earnings release. During the three months ended March 31, 2008, all shares were purchased in open-market transactions.

During the three months ended December 31, 2007, we reclassified 31,393 vested options from equity classification to liability classification, as these options were expected to cash settle subsequent to December 31, 2007 due to the suspension of option exercises because we were not current with our filings with the SEC. As a result, we recorded a liability of approximately \$0.1 million and recorded compensation expense of \$0.1 million in the three months ended December 31, 2007. This liability was paid during the three months ended March 31, 2008. As of March 31, 2008, we were current with our filings with the SEC and, therefore, all outstanding options were classified as equity.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Except for the risk factors set forth below, there have been no material changes to the risk factors disclosed in Item 103 in Item

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

The following lists exhibits filed as part of this quarterly report on Form 10-Q:

Exhibit No.	Description
10.1(1)	Description of the 2008 Management Incentive Compensation Plan
10.2(2)	Form of Restricted Share Award Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended
10.3(3)	2008 Executive Management Incentive Compensation Plan
10.4	Master Service Agreement by and between ACI Worldwide, Inc. and International Business Machines Corporation (filed herewith)
31.01	Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed February 4, 2008.

(2) Incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed February 4, 2008.

(3) Incorporated herein by reference to Annex A to the registrant's Proxy Statement for its 2008 Annual Meeting. (File No. 000-25346) filed April 21, 2008.

* This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

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.

ACI WORLDWIDE, INC.
(Registrant)

Date: March 3, 2009

By:

/s/ SCOTT W. BEHRENS
Scott W. Behrens
Senior Vice President, Corporate Controller and
Chief Accounting Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1(1)	Description of the 2008 Management Incentive Compensation Plan
10.2(2)	Form of Restricted Share Award Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended
10.3(3)	2008 Executive Management Incentive Compensation Plan
10.4	Master Service Agreement by and between ACI Worldwide, Inc. and International Business Machines Corporation (filed herewith)
31.01	Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed February 4, 2008.

(2) Incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed February 4, 2008.

(3) Incorporated herein by reference to Annex A to the registrant's Proxy Statement for its 2008 Annual Meeting. (File No. 000-25346) filed April 21, 2008.

* This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.