

# FINAL TRANSCRIPT

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## **ACTU - Actuate Corporation Acquire Xenos Group Inc. for USD\$35.5 Million (CAD\$37.7 Million) Conference Call**

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Dec. 08. 2009 / 10:30PM, ACTU - Actuate Corporation Acquire Xenos Group Inc. for USD\$35.5 Million (CAD\$37.7 Million) Conference Call

## CORPORATE PARTICIPANTS

**Tom McKeever**

*Actuate Corporation - General Counsel*

**Pete Cittadini**

*Actuate Corporation - President and CEO*

**Dan Gaudreau**

*Actuate Corporation - SVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Brent Williams**

*The Benchmark Company - Analyst*

**Justin Cable**

*Global Hunter Securities - Analyst*

**Kevin Liu**

*B. Riley & Company - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Acquisition of Xenos Group, Incorporated, by Actuate Corporation Conference Call. (Operator Instructions).

I would now like to turn the conference over to your host for today, Mr. Tom McKeever, General Counsel of Actuate Corporation. Please proceed, sir.

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**Tom McKeever** - *Actuate Corporation - General Counsel*

Thank you, Operator. Good afternoon, everyone, and welcome to Actuate Corporation's conference call to announce the proposed acquisition of Xenos Group, Inc. Joining me is our president and CEO, Pete Cittadini and our SVP, Operations, and CFO, Dan Gaudreau.

Earlier we posted a press release and slides regarding the transaction at the investor relations portion of Actuate.com.

During the course of this call, we will be making projections and other forward-looking statements. These include statements regarding Actuate's expectations, beliefs, hopes, intentions, or strategies regarding the future, including the timing, financing, and performance of the acquisition of Xenos Group. Our actual results may be very different from our current expectations. Factors that could cause or contribute to such differences include, but are not limited to, the timing of and/or the satisfaction of closing conditions, quarterly fluctuations in revenues, other operating results and cash flows, our ability to successfully integrate Xenos, general economic and geopolitical uncertainties, and other risk factors discussed in Actuate's Securities and Exchange Commission filings, in particular, Actuate's 2008 annual report on form 10K, filed on March 12, 2009. We do not currently intend to update these forward-looking statements except as required by law.

Now I'd like to turn it over to Pete.



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**Pete Cittadini** - Actuate Corporation - President and CEO

OK, Tom, thank you, and ladies and gentlemen, thank you for such a great turnout on quick notice. We're very excited to announce the definitive agreement associated with the acquisition of Xenos Group, and I am going to go through a presentation that's on our website. Dan Gaudreau, our CFO, is also with me. I'll be starting on slide number three and we'll go through a very brief agenda, talking about transaction details, an overview of Xenos Group itself, the strategy behind the acquisition, and then a financial discussion as to what the acquisition brings to our P&L and balance sheet.

The acquisition of Xenos really does broaden the market opportunity for BIRT by making Actuate the only company that can transform content and structured data into BIRT-asked rich information applications. So again, the preface that I want to give you before I move on to slide number four is that this is completely aligned with our open sourced and BIRT strategy.

So if you turn to page four, a little bit of housekeeping on the transaction. The definitive was signed today and it is a friendly takeover bid for all outstanding equity of Xenos Group. It's an all-cash transaction with a purchase price of CAD3.50 per share. The enterprise value of the approximate asset is CAD28.4 million. Terms have been approved by both Actuate and Xenos Group board of directors. The offer is expected to be mailed to shareholders later in December, and the transaction should be closed within the confines of Q1, 2010.

Moving on to page number five, a little bit about Xenos. They're a firm headquartered in Toronto, Canada, where we actually made our last acquisition in January of 2006. They hold approximately 90 employees on a global basis, primarily in the Canada, US, and Europe. They do have a fascinating, market-leading technology of high-performance data and document management that streamline enterprise information supply chains.

So, essentially what they do is electronification from print streams of customer available statements, and they do this for the who's who of very large global customers. Today they sit with 350 global customers and 170 of the those are amongst the global 1000. So one of the great synergies that we obviously see and share is large customers.

They also have a 75% footprint of their business associated with financial services; again, banking, credit card, insurance, and brokerage firms. But as does Actuate, Xenos has a very horizontal approach to doing business with some world-leading manufacturing, telco, health care, transportation, logistic companies, as well as government. As you know, government and health care are very, very big emerging statementing technology targets for Actuate and the acquisition of Xenos just strengthens our focus in pursuit of those two markets.

Moving on to slide number six, again, the big growth market opportunity for BIRT and essentially what we at Actuate are extremely excited about is tapping into this very essential, fundamental, and voluminous data source called the print stream, and creating with Xenos an additional converter so all of those volumes of data could very easily be converted through the BIRT iServer and the incorporation of some Xenos technology into BIRT-based formatted output.

So imagine, if you will, getting something that's very fundamental, very mundane, something that has been running for a long time, will continue to run for a long time, but you haven't thought about how to add value to it, because there's been no supplier out there thus far that created avenues for value-add to the print stream. But you could, through the purchase of a BIRT iServer and particular modules that have to do with print streams immediately convert that print stream output to a default set of electronic BIRT web pages as the first phase of your customer-facing application. We've already run this through many CIOs within our customer base and it's been extremely well-received. One that people have not thought of, because of the lack of technologies associated with print streams, but something that would be of extreme value to them, as soon as the technology was available.

So again, for us, the market opportunity of allowing Xenos to bring us that data stream and incorporate that into a BIRT-formatted output, whether that be the whole BIRT-formatted output, or whether we start to co-mingle print stream data with other

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structured content within the enterprise for new and exciting applications and data streams, it's sort of a limitless marketplace for us, and again, one that hasn't been catered to, which is extremely exciting to us.

So again, we'll also be able to add interactivity and spreadsheet analytical capabilities to the Xenos-based electronic statements, we'll be able to better integrate ECM, or enterprise content management systems, with the BIRT iServer. We'll be able to now provide the foundation for our future search and document-based BIRT applications, as well as utilize the BIRT analytical capabilities to actually understand and analyze the data residing within the print streams itself, as an analytical tool for the firm who's interested in mining and better understanding the data within the print streams.

So again, a very big market mover opportunity for BIRT and of course, once you get to know the Xenos technology a little bit better, you'll understand that it truly is a Java-based enterprise-class server, where BIRT iServer is, both built for high-scale performance, reliability, and security of the data that it works with.

Moving on to page 7, Xenos has been a growing business in and of itself. I've met lots of outstanding people there, through the due diligence process, and plan on meeting lots more outstanding people there. They truly are culturally and business wise very similar to Actuate Corporation. They're primarily a technology company that really focuses on large magnitude applications and deliverables. So they do have great enterprise technology with an exciting product road map, a very synergistic large customer base with a focus on selling into IT, as we do at Actuate, and a very solid opportunity to grow the Xenos business in 2010.

For us, some of the things that we're going to do immediately is just allow the Xenos sales and marketing group to have access to our 4,500 clients plus, and I think that, in and of itself, will cater to some great growth beyond what they could have done for themselves as a stand-alone entity. But there's lots of vectors of collaboration from a sales and marketing standpoint for growth in 2010 and certainly beyond. So we're very excited about that.

And then just wrapping up with slide number 8, a little bit of a quote from IDC -- you know, essentially, when you synthesize what we're trying to do from a technology standpoint, it is that we're brining BIRT and BIRT iServer to really be a new server technology that's boundaryless between content and data, to enable pervasive access of all relevant information to all relevant people. So again, the world that we've primarily participated in and dominated was the world of structured data, and now what we'd like to offer the marketplace, and we believe this is well in line with what IDC sees as a dramatic differentiator for the future, is co-mingling that structured data with unstructured data, documents, print sources, and things of that nature. And we really do believe that the merger of Actuate and Xenos is a one-plus-one-equals-three for the marketplace. So, super-excited. We'd like to now share a little bit of the financials associated with our thoughts on the merger, and then we'll open it up to Q&A, so let me hand it over to Dan Gaudreau.

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**Dan Gaudreau** - Actuate Corporation - SVP and CFO

OK, I am on slide number 10. I'm going to first discuss the details again of the transaction. This is an all-cash transaction. The purchase price is CAD3.50 per share, for a total value of CAD37.7 million or approximately \$35.5 million. The enterprise value of this transaction will be approximately CAD28.4 million, assuming a closing cash balance of approximately CAD9 million. This is exclusive of cash to be received from stock option exercises.

Shareholders hold 10 million shares of common stock, and employees hold another 757,000 in-the-money options. All options are assumed to accelerate; therefore, option exercises will yield approximately CAD1.4 million. The majority of the cash will be coming from our Swiss entity. The generation of tax-free cash on foreign profits, and use of an offshore acquisition, was always the underlying plan for our Swiss operation, so this fits exactly with what we have been planning all along. We will draw down another \$10 million from our bank line, and Xenos's cash balance will make up the difference.

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Post transaction, I believe our cash and investment balance will total between \$55 million and \$60 million, and we will have debt of approximately \$40 million.

Slide number 11 -- Xenos's fiscal year ended September 30, 2009. Because they have not yet filed these results publicly yet, or at least with the Toronto Securities Exchange, I've had to deem these preliminary. They've issued a press release, which is also on their website.

All dollar amounts shown on this chart in Canadian dollars. Revenues for fiscal totaled CAD17.2 million, an increase of CAD1.3 million or 8% compared with fiscal 2008. License revenues and royalties totaled CAD6.7 million, an increase of 20% year over year. Maintenance revenues aggregated CAD7.4 million, up 4\$ year over year, and professional services revenues were CAD3.1 million in fiscal 2009, essentially flat with 2008.

North American/international mix was 70%/30% respectively. While international revenues, primarily in the UK, declined 20% a similar trend to what Actuate has been experiencing in our international markets, the North American revenues grew nicely, at 28%. Approximately 80% of revenues are direct, while 20% are indirect, primarily from OEMs. Non-GAAP income from operations totaled CAD2.2 million, an increase of 22% year over year, and the restructuring operating margin for fiscal 2009 was 13%. At the end of this presentation, on slide 15, there's a reconciliation of GAAP to non-GAAP operating income.

Next slide, number 12 -- amounts shown on this chart are also in Canadian dollars. Cash and cash equivalents totaled CAD9.3 million, at September 30, 2009. That's an increase of CAD1.2 million over the prior fiscal year end. Accounts receivable totaled CAD2.9 million, with DSOs in the 60-day range. Deferred revenue totaled CAD3.7 million, a 20% increase year over year. CAD3.2 million of this balance is deferred maintenance contracts, while the remainder is deferred licenses and services.

Next slide -- other items of interest are shown on slide 13. Xenos was cash flow positive during fiscal 2009, generating CAD2.4 million in cash flow from operations. Their organization consists of approximately 90 employees; there are 29 in R&D, 26 in sales and marketing, 21 in customer support and professional services, and 14 in G&A. There are eight quota-carrying sales reps, split equally between North America and EMEA. Capital spending is approximately CAD200,000 annually.

Under U.S. GAAP, we are not allowed to carry forward 100% of their deferred revenue balance. We're going to need to adjust this balance downward to reflect the cost to service their maintenance and professional services contract. This is going to result in a deferred revenue reduction of approximately \$2.4 million and a corresponding decrease in 2010 GAAP revenues to Actuate on a consolidated basis. I want to point out, though, that 100% of this amount should reappear in 2011 GAAP revenues, assuming no maintenance renewal declines.

And finally, the net income value of acquired NOLs and tax credits is approximately \$2 million, or on a pre-tax equivalent basis, approximately \$5.8 million.

Slide 14 -- we're providing the following comments regarding the impact of the acquisition the impact of the acquisition on Actuate's consolidated 2010 financial results. In addition to organic growth with Xenos's customer base, Pete's also mentioned product and channel synergies that we expect to realize. Revenue synergies should impact the second half of 2010. Based on this, our internal expectations are for double-digit percent revenue growth in 2010. We do expect to realize cost savings from the elimination of public company costs and other duplicative costs. There will be a partial offset-- cost offset, as we upgrade their IT infrastructure and management information systems to be compatible with Actuate's. The results should be an expansion in Xenos's non-GAAP operating margins, as operating income growth should outpace revenue growth. Depending on your treatment of the lost deferred revenue and corresponding services revenues, this transaction should be accretive in the range of a \$0.01 to \$0.04 per share on consolidated Actuate 2010 results.

This concludes the formal comments, formal remarks, related to the acquisition. We will now open it up to questions.



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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions) Brent Williams.

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### Brent Williams - The Benchmark Company - Analyst

So just in glancing through their website, it looks like they both pick data out of maybe older, [aligning] content management systems as well as all that sort of mainframe print stream stuff. What percentage comes from migrations off of old content management systems? What's the ongoing print stream type of business?

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### Pete Cittadini - Actuate Corporation - President and CEO

The majority of it, Brent, is still ongoing print stream type of business. That's one of the things that we did have substantial discussions with our current customers, as well as their customers, and the print stream really is going to be here for an extremely long period of time. So I'd say that 80% of their business is from print streams coming from various computing environments, mainframe being one.

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### Brent Williams - The Benchmark Company - Analyst

OK, given that I was a mainframe guy oh so long ago and I'm kind of getting soggy-eyed with nostalgia about hydraulically powered line printers and all that other good stuff from the 70s and 80s, just trying to figure out, does this essentially then support-- I mean, is it just, "Hey, this is nice, because it's an updated technology generation to handle all that giant amount of stuff?" and you know, like that, or is this something more like maybe you more explicitly going up front, saying, "Hey, you know, if you're going to replace mainframe systems and you're going to put them in Java, well, ok, the COBOL part might be doable, but it's this output stuff that's the killer." In other words, are you trying to really stand up and say, "Hey, we can help you replace mainframes?" or is it just-- is that maybe too ambitious or too big of a message?

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### Pete Cittadini - Actuate Corporation - President and CEO

It's too big of a message right up front, but you're right, I mean, the AFP, the Advanced Function Print, is the majority of what those print streams that they sort of manage and transform into various different outputs from AFP, is a lot of what they do. So to us, the vision is, "Well, geez, if we could turn your AFP print stream data into an initial phase one of a BIRT electronic set of web pages, so instead of just converting AFP into PDF, you now have this much more attractive, interactive, more valuable output than just sort of static PDF, could we get started doing business?" and allowing you your initial BIRT application associated with a data source that you could never have conceived bringing into the world of Web 2.0. So that's what it is for us.

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### Brent Williams - The Benchmark Company - Analyst

Great, so this is much more of a BFD than just AFP to PDF, if I could string together all the three-letter acronyms. And then let's see -- as far as, you know, when you talk about sort of making it more usable, one dimension of making it more useable is you know, getting better formats, making it more lively, interactive, analytical, you know, all the stuff you've done historically. But when you're talking about unstructured content, which I think was some of the stuff that's on their webpage and some of the stuff that you were commenting on earlier in the conversation, you know, another dimension is to make that eminently searchable. Now, do you see this being about-- in other words, do they have search technology that you wanted to get your hands on, do they have some search technology that maybe duplicates what's already in BIRT, or iServer, or are-- you know, where does that go? How should I think about that? And if you are really jumping with both feet into the search business, how do you think about other open source search projects that are out there, like Lucene and stuff?

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**Pete Cittadini** - Actuate Corporation - President and CEO

Yeah, so it's not full speed ahead in the search business for us, with phase one of this. They do have underpinnings that are very solid, technology-oriented, collaborative underpinnings for search that they haven't exploited as of yet. But it clearly is one of the bullet points in one of my slides, that we do want to start looking at, potentially exploiting, based on customer feedback, of course.

**Brent Williams** - The Benchmark Company - Analyst

OK. That's- I think that was-- oh, last one was, what about- you know, what is the sort of characteristics on deal sizes? In other words, do they tend to bring in some significant portion in really large deals, or is it all fairly small? What's the typical average deal size?

**Dan Gaudreau** - Actuate Corporation - SVP and CFO

Their typical average deal size is, I believe, is CAD75,000 to CAD100,000 range. They have a new product called their Enterprise Server product that has been out now for approximately five quarters and that has grown the ASP. I think if you look at that particular product, of which they've sold somewhere to 15 to 20 some odd sales of that product, we looked at some orders where they were greater than CAD100,000.

**Pete Cittadini** - Actuate Corporation - President and CEO

I'd say they're roughly in the CAD75,000 to CAD100,000 range, with the majority of their business.

**Brent Williams** - The Benchmark Company - Analyst

OK, and very, very last thing -- what's the competitive set? Does this compete with anything from like CA? HP bought a thing called Dazel, D-a-z-e-l, many, many years ago, which I thought was about the first one I'd seen to handle this. Who does this really compete against?

**Pete Cittadini** - Actuate Corporation - President and CEO

It's quite a scattered group of competitors, everything from IBM's Content Manager on Demand to yes, indeed, stuff from HP, from CA, as well as some other smaller vendors as well. Their hallmark feature, however, is very aligned with ours.

You know, in our due diligence, we talked to some of their customers in applications, and they have applications that range from the 7 million to 8 millions of users, that are accessing on a periodic basis, 70 million to 80 million reports. So these guys do it in a very, very big way. Their maintenance base is solid, it's very sticky, because of their hallmark feature of scalability, so it's a very, very good fit from that regard.

**Brent Williams** - The Benchmark Company - Analyst

And does this become open source, or is this not open source over time?

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**Pete Cittadini** - Actuate Corporation - President and CEO

This will become a module to the BIRT iServer.

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**Brent Williams** - The Benchmark Company - Analyst

Got it. Thank you.

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**Operator**

Justin Cable, Global Hunter Securities.

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**Justin Cable** - Global Hunter Securities - Analyst

Question about your guidance for 2010 in the double-digit revenue growth expectation. Is this-- is that organic?

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**Pete Cittadini** - Actuate Corporation - President and CEO

Justin, I can't hear you.

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**Dan Gaudreau** - Actuate Corporation - SVP and CFO

He said is it organic?

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**Pete Cittadini** - Actuate Corporation - President and CEO

Oh, there is some synergistic sales in the revenue, if that's what the question is.

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**Justin Cable** - Global Hunter Securities - Analyst

Well, I guess if you were to look at just the organic growth on a combined basis, 2009 versus 2010, maybe even pro forma, ignoring the GAAP accounting rules for maintenance, what would that growth basically look like?

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**Pete Cittadini** - Actuate Corporation - President and CEO

Ignoring the deferred revenue haircut, it would be growing in the, say, call it low double-digits.

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**Justin Cable** - Global Hunter Securities - Analyst

OK. So is the strategy here partly sort of leveraging the customer base and upselling them BIRT products, and then going back and forth by selling their solutions to your existing customer base, or are you simply going to take their product, open source it, and just really trying to leverage the technology and--

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**Pete Cittadini** - Actuate Corporation - President and CEO

Well, the immediate strategies will be selling BIRT to their clients, their selling their enterprise server products to our clients. That should be immediately synergistic; both are Java-based, server-centric technologies sold into IT. And then we'd like to pretty immediately start working on the BIRT conversion product, which will be an extension to what their enterprise server does, and we're going to bake that portion of their enterprise server with the BIRT convert into the BIRT iServer for sort of the more strategic revenue trajectory for the future that we believe is there.

**Justin Cable** - Global Hunter Securities - Analyst

Is the conversion, is that a license opportunity, or is it--

**Pete Cittadini** - Actuate Corporation - President and CEO

Yeah, it'll be another BIRT iServer module, to the tune of [50,000] per CPU or core.

**Justin Cable** - Global Hunter Securities - Analyst

OK. And how many customers do they have and what is the overlap with your own customer base?

**Pete Cittadini** - Actuate Corporation - President and CEO

Quite a bit of overlap. They do business with companies like B of A, Wachovia, Citi, so there is quite a bit of overlap. Of course there are different projects, and they give us exposure to different people within those entities, which is always good for us. But again, a rather friendly environment, because most of those firms already have software license agreements terms in place with us, and now, because of the technology synergies, should be easy to do more transactions with those firms, regardless of whether they're purchasing Xenos technology or Actuate technology.

**Justin Cable** - Global Hunter Securities - Analyst

OK. All right, thank you.

**Pete Cittadini** - Actuate Corporation - President and CEO

Yep.

**Operator**

(Operator instructions) Kevin Liu, B. Riley and Company.

**Kevin Liu** - B. Riley & Company - Analyst

You mentioned public company costs as one potential synergy. Could you talk about how much those were, and then also whether there are any planned near or long-term synergies in terms of cost reductions, either due to facility consolidation or other such measures?



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**Pete Cittadini** - Actuate Corporation - President and CEO

So the public company costs are somewhere in the \$300,000 to \$400,000 range, somewhere in that neighborhood. The facilities, no, there's no immediate plans for facilities. And I'd just like to say that the organization, at least the people I've met, are fantastic. It's a well-run, high-skilled management team, and we have no immediate plans relating to people, either.

**Kevin Liu** - B. Riley & Company - Analyst

And all those members of the management team are staying on?

**Pete Cittadini** - Actuate Corporation - President and CEO

Yeah, at the executive staff level, absolutely, yeah.

**Kevin Liu** - B. Riley & Company - Analyst

And then could you also comment on the plan future usages of cash and obviously, you guys have been an aggressive buyer of your stock in the past. Just wondering how long you might be restricted for coming out of this acquisition and whether, you know, you plan to pursue acquisitions of other complementary technologies, or return to kind of the buybacks?

**Pete Cittadini** - Actuate Corporation - President and CEO

Well, I think those averages are always open, Kevin. You know, we have not been restricted by the board, nor did they say we're restricted going forward. You know, I think we're going to end up in the mid \$50 million range of cash, probably maybe even a little higher at the end of the year, and you know, depending on the valuation of the stock, we'll lobby the board, like we normally do, to get the buyback based on Q4's cash flow.

**Dan Gaudreau** - Actuate Corporation - SVP and CFO

Yep, and Kevin, as you know, we've always said that the best two uses of our cash were both stock buybacks and as you know, we did about a year ago a very substantial tender, as well as acquisitions, as long as they were well-aligned with our strategy and would be rather immediately accretive. And you know, I think we've followed through on behalf of the shareholder base on both those aspects with good transactions associated with both tender offers for stock as well as acquisitions in the past, including this one here.

**Kevin Liu** - B. Riley & Company - Analyst

Got it. And then just one last question, in terms of the technology and customer base -- are you aware of any BIRT customers who are already kind of using the Xenos product in conjunction with BIRT, in existing apps, or will that be dependent upon you guys coming with a converter?

**Pete Cittadini** - Actuate Corporation - President and CEO

Yeah, that'll be dependent on us coming up with the technology that will parse the data from the print stream and create a BIRT formatted output.

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**Operator**

(Operator instructions)

**Pete Cittadini** - Actuate Corporation - President and CEO

OK, ladies and gentlemen, again, thank you very much for attending the conference call and giving us the Q&A. Again, we're very excited to continue to work diligently to get this accomplished within the confines of Q1. We're hoping that you see the synergies and are as excited as we are. We know that we can do a lot of great work with this firm and with this technology, and we know that we can show you some great results in the not-too-distant future as well. So with that, thank you for everyone's participation and we'll be speaking to you real soon. Thank you.

**Operator**

(Operator instructions)

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