

FINAL TRANSCRIPT

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ACTU - Q4 2009 Actuate Corporation Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter 2009 Actuate corporate earnings conference call. My name is Regina and I will be your operator for today. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions).

I would now like to turn the conference over to your host for today, Mr. Tom McKeever, Senior Vice President and General Counsel. Please proceed, sir.

Tom McKeever - *Actuate Corporation - SVP, General Counsel & Corporate Development, Secretary*

Good afternoon, everyone, and welcome to Actuate Corporation's quarterly conference call. Joining me to discuss our Q4 results is our President and CEO, Pete Cittadini, and our SVP Operations and CFO, Dan Gaudreau.

Earlier today, we posted a copy of our financial press release for Q4. We've also posted our Q4 earnings call financial slides. All of this data may be viewed in the Investor Relations portion of Actuate.com.

During the course of this call, we'll 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 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, quarterly fluctuations in revenues, other operating results and cash flows, our ability to successfully integrate Xenos Group, Inc., general economic and geopolitical uncertainties, and other risk factors discussed in Actuate's Securities and Exchange Commission filings available at SEC.gov, including Actuate's 2008 annual report on Form 10-K filed on March 12, 2009, and the risk factors described in Xenos Group,



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Inc.'s filings with the Canadian Securities Administrator available at SEDAR.com -- with an S -- including its annual information form dated September 22, 2009.

We do not currently intend to update any forward-looking statements, except as required by law.

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

Pete Cittadini - Actuate Corporation - CEO and President

Okay. Thank you, Tom, and welcome, ladies and gentlemen. If you're on the website, I'll be starting with slide number four and just reviewing some Q4 '09 summary statistics.

Number one, I will tell you that Q4 was a solid finish to our 2009, with revenues coming in at \$31.2 million; license revenue coming in at \$10.2 million; non-GAAP fully diluted EPS of \$0.12, which is a 20% growth for that quarter year-over-year; and \$5.8 million of cash flow from operations.

Moving on to the next slide and looking again at summary statistics associated with the year 2009, revenues ended up at \$119.3 million; license revenues at \$36.1 million; non-GAAP fully diluted EPS of \$0.40 per share -- again, a growth of 48% year-over-year; and cash flow from operations at \$17.5 million for the year. So there's the final chapter on Actuate's FY 2009.

Moving a little deeper into Q4, if you move on to slide number six, you'll see that we continue with our focus on Blue Chip large global companies defined as the Global 9000 for Actuate Corporation, which is companies with annual run rates of \$1 billion or better that allow us a lot of repeat revenue potential.

I think you'll see per the slide that we continue to be extremely strong in the financial services sector and in the OEM sector. The other thing that I'd like to comment on is we continue to have good balance between the two types of applications that Actuate enables. That is BI and performance management applications as well that -- as a very unique facet of our firm outside the firewall customer-facing applications. And for the year as well as for the quarter, it's extremely well-balanced at approximately 50/50 between those two application areas.

The other comment on this slide is approximately 70% of our revenues for the year did come from these Blue Chip Global 9000 accounts. So, again, we continue good discipline and operational techniques in pervading large global accounts with repeat buying patterns.

Moving on to slide number seven, give you a little bit more color on the success of BIRT within the marketplace. Going right into it, we accomplished \$6.5 million of BIRT-related business for Q4. That's an all-time high for BIRT at Actuate Corporation and we concluded more than 150 transactions within the quarter.

When you look at the BIRT business for the year, we exceeded \$18.2 million and more than 500 transactions for the year. Again, ahead of what we expected just 90 days ago. We thought we'd be in the \$17 million to \$17.8 million range. So, again, slightly ahead there.

When you look at the investments we've made and the traction associated with those investments, namely birtexchange.com, you'll see that the average daily page views in Q4 were 5,800 plus. That was an increase of 22% year-over-year. The monthly visitors on average were 32.6 -- 32,600. That was an increase of 60%. Average monthly visitors year-over-year and unique commercial downloads were at 1,400 plus. Again, an increase of 44% year-over-year.

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The exciting thing here is the percentages of year-over-year increase are accelerating, and thus we do believe we are getting very appropriate traction associated with a big part of the monetization strategy Actuate associated with the BIRT developer community. Like today, when you look at BIRT registrations at Actuate Corporation, greater than 24,000.

Also on page -- or slide seven, a little bit about the BIRT exchange marketplace. As you know, we started a strategy of creating free downloadable applications so people get to see what the potential of BIRT is. At the launch in early August, we had seven applications in the marketplace. Today, we sit with 44 applications in the marketplace and that's due to grow dramatically in 2010. And I believe approximately 11 of the 44 have been contributed by outsiders and partners; the remainder coming from Actuate personnel.

Moving on to slide number eight, this is one that if you've been not following us or invested in Actuate for a substantial period of time, we'd like to sort of bring forth again; because, again, it's very important to us that you understand that we've had a strategy. We've been executing on a strategy. We've not wavered from that strategy and here you'll see tangible results associated with that strategy.

This basically shows the elements of the new Open Source-driven enterprise software business model that we're formulating at Actuate Corporation. And when you look at the three circles, it really starts from global expansion to revenue acceleration, to lowering the cost of sales and marketing, ultimately, offering the shareholder higher earnings.

Well, today, we sit with -- for an independent study, 750,000 developers using BIRT on a worldwide basis. That is an astounding number and has accelerated dramatically over the past year to year and a half. So we believe that we're well on the way in being able to claim victory associated with global market expansion due to the freeware use of BIRT.

Second phase of the strategy, which we'll be turning to in 2010, is revenue acceleration. And when you look at the life today of BIRT business, we have 42 million plus across greater than 400 customers. Again, when you go back to the same period in the Company's inception associated with the previous technology, eRD Pro and e.Reports, the expansion is dramatic when compared to eRD Pro and e.Reports.

As you see per our financials for Q4 as well as 2009, we're already accomplished in best-in-class operating margins. But as you know, our drive behind this new hybrid business model is one that gives the shareholder true viability and operating margins in the range of 30% to 40%. Again, the requisite for revenue acceleration has been global market expansion. We believe that's well underway. Next becomes revenue acceleration, which is an absolute must to get our best-in-class operating margins that are approximately 21%, to that range of 30% to 40%.

So, again, it's exciting to us to pull out older slides that show what we intended on doing. And again, continue to measure ourselves against original strategies, showing you that we can operationalize what we intend to do.

So that's my comments on slide number eight. Moving on to slide number nine, a little bit about the acquisition of Xenos. Some of the mechanics is, today, we've had deposited approximately 9.5 million shares of common stock, which represents over [95.2%] of the common shares of Xenos with the tender process that we just concluded last night.

As you know or should know, this is an all-cash transaction with the purchase price being at CAD3.50 per share and the enterprise value, on a Canadian basis that we paid for the Xenos Group, is approximately CAD28.4 million.

Moving on to page 10, more exciting than concluding the concluding the transaction is what the transaction means to our future strategically. And the great thing about this schematic is we're already directly collaborating with a number of our Global 9000 customers. And it just shows you the great alignment of this acquisition with our ultimate BIRT strategy.



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What this shows you here on the left-hand side is the document print streams that Xenos is noted for in the marketplace; very efficient and high-performance access of those print streams. And those print streams could be anything from AFP, which is quite voluminous in their customer base, to PDF as an input into their server technology.

As you know, what we intend on doing with the Xenos product is not only growing it in and of itself, but adding innovation to it with a Xenos-to-BIRT converter that will be iServer-based, that will take these document print streams and convert the output to BIRT-formatted output.

What has really been very exciting to our customer base is that once the data is captured within the confines of the BIRT iServer, you can simultaneously move that data to many different relevant places. For instance, if you are doing a banking statement application, you could not only give someone a very nice Web 2.0 look at their bank statement that was highly interactive, but you could also allow them an interactive view for a spreadsheet.

In the same time, instantly, because of regulation purposes, you can insert that statement into an archival system, which are typically large document management systems like FileNet, et cetera. You can, for those who haven't opted for online only, send a copy to be printed to a batch printer. You can email an individual with salient summarization of what's on the statement, and you can text people to their phones, saying that, indeed, a statement may be waiting for them at their IP address-oriented home office printer.

So, again, I really do think that this acquisition of Xenos holds dramatic promise in revenue growth and customer satisfaction for us with the integration of BIRT. And again, it is 100% aligned with our BIRT strategy.

Again, the idea is, with millions of developers of BIRT in the marketplace doing these types of applications, becomes extremely cost-effective. And because of that resource base, you dramatically reduce total cost of ownership of an Actuate/Xenos application.

Moving on to the final two slides. Looking at 2010. As you know, we don't give explicit guidance associated with our business plan. However, we did want to make the following comments -- that you can expect, and we plan on, double digit percentage growth associated with revenues, earnings per share, and our BIRT-related business growth.

We continue as a business -- or expect to continue as a business, with positive cash flow from operations, and we also expect to continue our best-in-class operating margins.

Moving on to my final slide, which is slide 12, I'd like to talk a little bit about the growth drivers we have available to us at Actuate for the years of 2010 and 2011.

Number one, the BIRT strategy and traction is real and is accelerating dramatically. You see that we, today, estimate we have 750,000 developers that's a BIRT business -- grew at almost 20% year-over-year in a very, very tough year for software -- and that large named clients are converting over to BIRT-based applications, many of them looking at BIRT as a going-forward standard.

The Xenos acquisition -- an absolute viable strategy for any public company to pursue growth -- the trick being the one that is aligned with your strategy and that can bring fairly immediate value, complementary value, to your customer base. We believe Xenos fits the bill 100%, associated with a good acquisition that's a viable yet synergistic growth avenue for Actuate and our share holders.

Due out in June of 2010, Actuate Version 11. We continue to innovate with the offering of In-Memory BIRT-based analytics for the masses, associated with the up-and-coming release of Actuate 11. And again, In-Memory analytics is quite hot today; but as far as bringing it to the masses, we believe that, again, we're able to take advantage of our hallmarks of scale, performance and reliability associated with the BIRT iServer that is used throughout the globe at Blue Chip large companies.



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And then, finally, we did indeed see a budget flush during the course of Q4. And through our conversations, primarily through our sales and distribution channels, we do believe that there's a positive IT spending trend that is beginning. And we believe that there is potential pent-up demand, especially for the unique customer-facing applications where Actuate stands in a league of its own amongst different BI alternatives in the marketplace. And, again, we do believe that the pent-up demand is potentially real because of the lackluster spending that we've experienced over the last couple of years.

So, again, real growth drivers for the next couple of years that we intend on capitalizing on. And, again, the focus is really turned to continuing with a pristine financial footing, but really moving into Phase 2 of the hybrid model strategy, which is, one, capitalizing on BIRT for growth.

With that, I'll hand it over to Dan Gaudreau.

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Thanks, Pete. Slide 14. Total revenues for the fourth quarter 2009 totaled \$31.2 million. That was a 6% year-over-year decline, but it was up 6% sequentially.

License revenues totaled \$10.2 million, up 2% year-over-year and up 19% sequentially. Maintenance revenues were essentially flat at \$19.6 million, while professional services decreased 57% to \$1.4 million. Professional services revenues were sequentially flat, so that revenue line may be at or near its bottom.

We have been constantly and proactively fine-tuning our cost structures since we first felt this recession in Q4 of 2007. Now, in Q4 2009, our operating expenses are down to \$23.4 million, representing a 4% decrease from a year ago.

We incurred \$1.5 million in litigation expense during Q4 '09, accounting for 4.8% of revenue. Despite this, we posted an operating margin of 24.9% and reported non-GAAP earnings per share of \$0.12, up 20% from a year ago.

Next slide -- this chart shows the year-over-year quarterly revenue performance in North America compared with the international markets. License revenues in North America were flat, \$6.8 million in Q4. Services revenues in total were down 9% in North America, primarily due to the continued slide in professional services revenues as customers continued to bring the work in-house.

We saw significant improvement in our international performance in Q4 '09, with a 37% sequential increase in total revenues. License revenues were up 3% year-over-year and 186% sequentially. We believe this was the result of pent-up demand from the first nine months of 2009. Services revenues in total were down 9% internationally, due to the declining pro service revenues.

Next slide -- for fiscal '09, total revenues aggregated \$119.3 million -- a 9% decline from 2008. As commented upon in previous calls, sales in North America seem to have stabilized in 2009, with total revenues down slightly. However, international business was more difficult to secure in fiscal 2009, and I'll provide more detail in a minute.

Fiscal '09 operating expenses totaled \$93.7 million, a 12% decrease from 2008. The more efficient cost structure has more than offset the revenue declines, and has contributed to a 5% increase in operating income and a 290 basis point improvement in operating margin.

Non-GAAP earnings per share totaled a record \$0.40 for 2009, a 48% increase over the \$0.27 reported last year. The earnings growth is the result of higher operating income, a lower effective tax rate, and lower outstanding share count, partially offset by foreign exchange losses and interest expense on debt.



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Next slide -- this chart shows the annual revenue performance in North America compared with the international markets. License revenues in North America declined 2% to \$27.9 million. Services revenues in total were down 3% in North America at about \$64 million. Maintenance revenues, however, were up 5% but were more than offset by declines in professional services revenues. Total revenues in North America seem to have stabilized, albeit slightly down on a full-year basis.

Although we saw a 37% sequential increase in international revenues, total revenues for the full year of 2009 compared with '08 were down 25%. License revenues were down 29%, and the maintenance and professional services revenues have trended down correspondingly. Foreign exchange impact on the international revenues was a negative \$1.3 million.

Next slide. These are other Q4 highlights. Some are repetitive. The large sequential increase in international revenues helped get the mix back to historic 26% level. We closed transactions greater than \$100,000 with 87 customers. That's an increase over the 76 we booked in the fourth quarter of '08. Revenue included two license fee transactions greater than \$1 million and this compares with one a year ago.

Non-GAAP services margins hit a record 81.2% in Q4 -- 3.9 percentage points above a year ago. The margin is attributable to the quality of our products and our high-maintenance and support margins.

Fourth quarter '09 non-GAAP operating margin was 24.9% and a record 21.5% for the full year of 2009. And again, fourth quarter '09 non-GAAP earnings per share grew 20% compared with the fourth quarter of '08, and fiscal year 2009 EPS grew 48% over '08.

Next slide -- balance sheet. Cash and investments totaled \$75.5 million as of 12/31/'09. That was an increase of \$17.1 million from 12/31/'08. That is net of a \$10 million share repurchase.

Accounts Receivable ended the quarter at \$33.2 million. That was up \$5.2 million year-over-year, primarily due to several license transactions that were booked and billed in Q4 of '09, but revenue recognition will not occur until after 12/31/'09.

Deferred revenue totaled \$46.3 million, an increase of \$2.9 million from 12/31/'08 and up \$8.7 million from September 30, '09. The year-end 2009 balance included the transactions mentioned above, as well as several multi-year maintenance renewal billings.

Next slide. Days sales outstanding ended the year at 98 days, up 20 days compared with 78 a year ago. DSOs at year-end 2009 were unusually high because of the license and maintenance transactions mentioned on the previous slide. DSOs, when adjusted for the sequential change in deferred revenue, totaled 72.

We generated \$5.8 million in cash flow from operations during Q4 and an aggregate amount of \$17.5 million for the full year of 2009. As a result of this, the Board authorized another stock buyback not to exceed \$5 million. We ended the year at 497 employees; that was down 36 from a year ago and down 14 from September 30.

Next slide relates to the acquisition impact -- Xenos's impact on our 2010 results. On the revenue side, we expect double-digit percent increase in Xenos's revenues year-over-year. We expect double-digit increase in our non-GAAP operating income as well. We expect to get some synergies due to the elimination of public company costs as well as some duplicate costs in their cost structure.

Offsetting that partially would be some cost increases in the IT infrastructure and MIS, and possibly some SOX compliance cost increases. Despite those, we expect on a full-year basis, Xenos to be accretive to our earnings by \$0.03 to \$0.04 per share.

After reviewing some of the published sell-side models, I also wanted to report some facts about Xenos so the effect of the acquisition can be modeled more accurately into the numbers. Xenos's total revenues in US dollars for calendar 2009 -- if you



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recall, they had a September 30th year-end; so when you put it on a Actuate fiscal basis, 2009 total revenues were \$15.1 million. License revenues were \$5.7 million; maintenance revenues were \$6.6 million; and professional services were \$2.8 million.

Non-GAAP operating expenses totaled \$13.2 million, resulting in an operating income of \$1.9 million and an operating margin of 13%. If Xenos was part of Actuate Corporation during fiscal year '09, these results would have added \$0.03 to our non-GAAP earnings per share. Also, our internal models for 2010 assume an average fully diluted share count of 53 million shares and an approximately \$400,000 increase in interest expense associated with the increased debt.

Next slide. I'm repeating some of the general guidance that Pete gave in his presentation. I want to point out that this guidance takes into account my previous comments regarding Xenos, as well as the selected comments on share count and other expense.

We expect double-digit percentage growth in revenues, earnings per share, and BIRT-related business. We will continue to generate positive cash flow during 2010, and we will continue to produce best-in-class operating margins.

Next slide relates to the long-term financial model for Actuate Corporation. We believe that our Open Source strategy as well as growth from strategic acquisitions will allow us to significantly increase our operating margins. Although we have best-in-class margins today, we believe that at or about double our revenue size, we would expect our margins to increase by at least 50%.

Operating margins in the range of 30% to 35%, possibly 40%, will be realized primarily from productivity improvements in sales and marketing, and from efficiencies of higher scale.

My final slide relates to a couple of upcoming conferences that we'll be attending. First is Thomas Weisel Partners. It's held in San Francisco, February 8 through 10. And then we'll be at the Roth Capital Partners conference down in beautiful Laguna Niguel, March 15 through the 17th. We hope to see you at either or both of those.

With that, we conclude the formal presentation. We now open up the floor to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Kevin Liu, B. Riley & Co.

Kevin Liu - B. Riley & Co. - Analyst

Good afternoon, guys, and nice quarter. Just taking a look at your guidance, certainly, if we're factoring in the Xenos comments, it seems like you could achieve the double-digit growth pretty easily. So just wondering if we strip out that effect, what would the outlook look like for just the Actuate core business?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Well, Kevin, we're not going to guide to the core business growth. However, I will make a comment that, clearly, we believe the core business will be in much better shape from a growth standpoint in 2010 than it was in 2009.

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

Great. And then last quarter, you had mentioned some large BIRT deals that you were hesitant to include in your Q4 assumptions. Did any of those end up closing within the quarter? Or are we still expecting them sometime in 2010?

Pete Cittadini - *Actuate Corporation - CEO and President*

Well, we have a pipeline that will continue into 2010. And we did close one that was in that large pipeline transaction.

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

And then just one more from me and then I'll turn it over. But in terms of the deferred growth that you guys talked about, a few large deals that were booked in the quarter and not yet recognized, could you quantify how much of that was associated with the license?

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

On a sequential basis, it was almost \$2 million.

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

Great. Thanks a lot.

Operator

Justin Cable, Global Hunter Securities.

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

Just wanted to clarify -- the large deals, you mentioned two large million dollar-plus deals that were closed on the license side, but then there were also multi-year maintenance deals that were closed. Were those a \$1 million plus as well?

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

No. The maintenance deals are maintenance. The license deals were the two over \$1 million.

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

Okay. (multiple speakers) But the maintenance deals, that was a large factor for the sequential increase in deferred revenues?

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

Absolutely. And receivables.

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Justin Cable - Global Hunter Securities, LLC - Analyst

Okay, great. Right. In terms of overall execution on the BIRT strategy, is there any changes that you're making in general going forward into 2010, with the salesforce in terms of how sales guys are incentivized or just overall kind of go-to-market strategy?

Pete Cittadini - Actuate Corporation - CEO and President

Some subtle changes. I think the biggest change happens within marketing. We had a separate Open Source strategy group that reported directly to myself over the last three years to incubate the whole sort of operational techniques behind the strategy.

Now that it's there and we believe we have appropriate traction and really everything about Actuate's future is rather BIRT-related, that Open Source strategy group has gone more mainstream and now lives within the greater marketing organization at Actuate Corporation.

One of the things that we've done in the past from a sales perspective is given people different pay for BIRT-based solutions and applications. And that facet will continue into 2010.

Justin Cable - Global Hunter Securities, LLC - Analyst

Got it. Okay. You mentioned earlier about the applications that are available through BIRT exchange. Curious to know how well those have been received, especially the ones that you've produced and made available? And what the monetization strategy is with those?

Pete Cittadini - Actuate Corporation - CEO and President

Again, they've been extremely well-received, based on the numbers of downloads of those applications. As I said, we're gratified in that a good 25% of them come from the outside world. But the monetization strategy is, once again, since BIRT and iServer is a development and deployment environment and platform, it's really about showing the outside world what the possibilities are in unique character associated with their applications. So they de facto standardize on BIRT and the BIRT iServer as infrastructure for such applications within their firm.

Justin Cable - Global Hunter Securities, LLC - Analyst

And can you say, perhaps give us a range of, in terms of dollar amounts, how much you've been able to generate from these applications in terms of iServer sales? Or is it too early?

Pete Cittadini - Actuate Corporation - CEO and President

I don't have that data at this point. I would tend to think, since we got it all started in beta fashion in August, that the application visualization of what the BIRT infrastructure and development environment can do for you has not kicked in yet. However, we are very excited about the amount of download activity associated with the applications. And I'll leave it at that. I don't think the applications vector has kicked in yet as a catalyst for BIRT and BIRT iServer sales as of yet.

Justin Cable - Global Hunter Securities, LLC - Analyst

Okay. And lastly, you also mentioned earlier about seeing the positive IT trends and potential for pent-up demand going into 2010. And certainly, you're not the only one saying that during this earnings season. But I'm curious, is this predicated on what

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you were able to close during the quarter? Or is this based on conversations that you've had after the end of the quarter and looking at overall budgets for 2010?

Pete Cittadini - Actuate Corporation - CEO and President

I'd say it's primarily oriented with information that we're getting from people, not specifically after the end of the quarter but during the confines of Q4. The budget flush, I think, was experienced by multiple software companies. So, to us, that seems like it's going back to more of a normal environment. But it really is discussions on going-forward intentions from an automation initiative standpoint.

Justin Cable - Global Hunter Securities, LLC - Analyst

Got it. Okay, thank you.

Operator

Nathan Schneiderman, Roth Capital Partners.

Nathan Schneiderman - Roth Capital Partners - Analyst

Thanks very much for taking my questions. A handful of questions for you. I just wanted to clarify on the billed and deferred revenue, I just wanted to clarify, did you say earlier that \$2 million of that related to license that was deferred? And -- why don't I start there?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Yes, Nate, if you compare December with September, the part -- essentially, \$2 million of that increase was related to deferred license transactions. And the other \$7 million of the approximately \$9 million is deferred maintenance.

Nathan Schneiderman - Roth Capital Partners - Analyst

And what exactly -- was that one deal? Two deals? Or more than that on the license side?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Several. Several -- that just were structured in such a way that RevRec will happen in future periods.

Nathan Schneiderman - Roth Capital Partners - Analyst

What was the nature of the contingencies that caused the RevRec to get delayed on that?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

I believe that there's two primary ones. One specific deal was on a when-due basis, so it's payment-driven. And another one was taken ratably -- it was a specifically structured OEM transaction, so that could be taken ratably. And then there's several others that fall into that same ilk.



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Nathan Schneiderman - Roth Capital Partners - Analyst

Okay, so the deal structure hurt your license revenue in Q4 by \$2 million. To what extent did -- what dollar amount did it hurt your professional services and maintenance, just in terms of any deferrals that you, under normal circumstances, would have recognized?

Pete Cittadini - Actuate Corporation - CEO and President

Those wouldn't have hurt the services lines. I don't look at it as a hurt; I look at it as a benefit to 2010.

Nathan Schneiderman - Roth Capital Partners - Analyst

Okay, got it, but no impact to Pro services or maintenance?

Pete Cittadini - Actuate Corporation - CEO and President

No. No.

Nathan Schneiderman - Roth Capital Partners - Analyst

Just license. 87 deals over \$100,000 -- that was your best print in a couple of years. Do you feel like the right interpretation is really pent-up demand or execution? Or how do we understand that good number?

Pete Cittadini - Actuate Corporation - CEO and President

It's a combination of everything. I don't think we've seen the pent-up demand as of yet, to tell you the truth. I would say the experience in Q4 was more of a budget flush experience. But obviously, we're always working diligently to get more productive in leveraging the Open Source model. And I believe that as time ticks away, we do get more productive and more knowledgeable as how to take advantage of that large, growing, ultimately ubiquitous environment of BIRT development licenses out there.

So, I would say we've not really seen the pent-up demand, but we've seen a more normal budget flush. And the discussions that we've had during the course of Q4 alludes to the fact that investments haven't been what they could have been over the last couple of years. And I think that will be exciting to the software industry in general, not only to Actuate.

Nathan Schneiderman - Roth Capital Partners - Analyst

Got it. And final question areas for you. I was hoping you could give us the number of new customers in the quarter? Also, R&D was down on a sequential basis. Anything unusual going on there? Just how should we think of R&D? Thank you.

Pete Cittadini - Actuate Corporation - CEO and President

I can't think of anything unusual within R&D, so I really don't have a comment on that, other than we're not ratcheting back R&D by any stretch of the imagination. We continue to invest in everything that we believe we should be investing in from a future IP standpoint.

As far as new customers close within the confines of Q4 was approximately 30.

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Nathan Schneiderman - Roth Capital Partners - Analyst

Thank you.

Operator

Brent Williams, Benchmark Company.

Brent Williams - The Benchmark Company - Analyst

My contender for the beating a dead horse award this quarter is the following question following up Nate. So, what was the change in engineering headcount -- and actually, overall headcount in the quarter?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

During the quarter, the headcount dropped by -- it was 14. Engineering headcount year-over-year, [around 9].

Brent Williams - The Benchmark Company - Analyst

Okay, was that just attrition or --?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Yes, just normal attrition. There's no risk -- no proactive risk.

Brent Williams - The Benchmark Company - Analyst

None of your sort of Tommy Bahama-wearing Californian engineers terrified that they'll be moved to Toronto in the wintertime or anything?

Pete Cittadini - Actuate Corporation - CEO and President

No, as a matter of fact, I don't know where the nine come from. They could have come from Shanghai, they could have come from Toronto. As you know, we're pretty global from a development center standpoint.

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Yes, actually we were down six in China, so it's probably there.

Brent Williams - The Benchmark Company - Analyst

Okay, got it. Okay, thank you. And then when you talk about sort of honing in a little bit on the best-in-class operating margins, and you talked about how you can get into that range when you sort of double the revenue run rate, should we assume that operating margin growth is going to accelerate?

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In other words, the number of BIPs of operating margin that you're going to put on every year is going to accelerate over that period? So in other words, I shouldn't be looking for, say, 250 BIPS of operating margin increase this year -- is that a reasonable way to think of it?

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Yes, it is.

Brent Williams - The Benchmark Company - Analyst

Okay, great. And then in looking at -- you mentioned that sales expense leverage was going to be a big part of that. And so, that usually implies moving from expensive, swashbuckling, BMW-driving field sales guys to telesales to other models.

And what's the BIRT -- typically the BIRT-centric business doing as far as -- what percentage is telesales only? What percentage is web only -- you don't even have to have a human involved? And what percentage does currently require a field sales person? And probably we'd want to think about in terms of percentage of revenue dollars.

Pete Cittadini - Actuate Corporation - CEO and President

Okay, Brent, you may want to come in for a more detailed briefing, but we are still pursuing the BMW, Mercedes, Porsche-driving sales representatives. Again, the vision behind the model at Actuate is a hybrid Open Source/enterprise software business model with the emphasis on enterprise software.

What we'd really like to do is be able to have more productive sales reps, so instead of making an average of \$200,000 for \$2 million of quota, if you're a direct sales rep at Actuate, you're able to make \$0.5 million for a \$600,000 quota. And we're able to prove to you, because of the arena that we've built for ourselves through Open Source, that making the \$6 million a reality is easier at Actuate than making \$2 million happen at most other enterprise software companies.

So again, we're into productivity associated with an enterprise-level direct sales person. So again, it's a dramatically different model than one would think is available to pure Open Source companies.

Brent Williams - The Benchmark Company - Analyst

Good. I think -- yes, that's a really interesting and very clear way to put it. And of course, given the price of Porsche's these days, that \$500,000 number looks necessary. Anyway, but that was all I had for now. Thank you.

Dan Gaudreau - Actuate Corporation - SVP of Operations and CFO

Okay. Yes, by the way, I'd like to clarify to Nate Schneiderman the question on R&D. R&D, actually, on a GAAP basis, was up like \$20,000. And on a non-GAAP basis, it was up about \$20,000. So R&D did not drop in the quarter, if that was your question. If it was a year-over-year question, R&D, in fact, is down.

Operator

Frank Sparacino, First Analysis.



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Frank Sparacino - *First Analysis Securities - Analyst*

Dan, maybe on the litigation side, the number you threw out I think was \$1.5 million, which is materially higher than I thought coming into the quarter. So I was just hoping you could explain that variance.

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

Explain it? When there are two -- see, well, one primary case that we're pursuing that is consuming most of that money, and that's the issue with Oracle.

Frank Sparacino - *First Analysis Securities - Analyst*

But relative to your expectations coming into the quarter, Dan, did you expect to spend that much? Or was that higher than you expected?

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

No, I thought I -- when I talked last time -- and maybe I didn't; I don't recall, but -- we're at about \$1.5 million run rate in litigation per quarter, and I expect that to continue. And I believe I said that, but I might not have.

Frank Sparacino - *First Analysis Securities - Analyst*

Okay, and lastly, maybe Pete, I'd be curious in your perspective, when you look at some of the industry commentary around Open Source BI, yes, it's just Gartner that talks about adoption rates are doubling every year. Those growth expectations are rather lofty. I'd be curious from your perspective where you think the market's at, whether it's adoption, growth rates, et cetera, from an Open Source perspective?

Pete Cittadini - *Actuate Corporation - CEO and President*

Yes, again, I really don't believe they're relevant. If you're a real business, public business -- I'm seeking the right words here. But doubling of adoption rates is -- I think it's pretty easy in the Open Source game. The scenario is converting that adoption into ongoing dollars -- short, medium, and long-term. And there I don't believe that the pure Open Source companies have really found the formula.

You can look at many, many, many people that have gone with a pure model have gotten 4 million developers over a 10-year period and have been in the \$8 million to \$12 million range as an Open Source high-flyer.

Again, all of what you're reading from an adoption standpoint and a pure Open Source standpoint is somewhat irrelevant to what we're trying to accomplish at Actuate Corporation. With us, Open Source is about influencing -- positively influencing a very large developer community that we know is always mobile and moving around from company to company.

And where we want to capitalize on that very large, ubiquitous element of influence is when those developers end up at a Global 9000 company and get assigned an appropriate solution or application to be built that's synergistic with what BIRT Actuate and BIRT iServer can do for that particular solution.

So, I do believe that our particular hybrid model will outperform if your variable for performance is truly small to medium public software company license and topline revenue growth, and associated best-in-class operating margins. If it's just about people

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that download, and you're never really able to capitalize and monetize on it, I think looking at those statistics and looking at those types of companies is pretty irrelevant to the future that Actuate has in front of it.

Operator

This concludes our question-and-answer portion of the call. I'd now like to turn the call back over to Mr. Pete Cittadini for closing remarks.

Pete Cittadini - *Actuate Corporation - CEO and President*

Okay, ladies and gentlemen. We just want to thank everyone for their participation this afternoon. And we hope to see you at the investors conferences. If not, we'll be talking to you in approximately 90 days. Thank you again.

Operator

Ladies and gentlemen, this concludes our presentation today. Thank you for your participation. You may now disconnect. Have a wonderful day.

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