

ACTUATE CORP  
Form 10-Q  
August 05, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from            to

Commission File No. 0-24607

**Actuate Corporation**

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State of incorporation)

**94-3193197**  
(I.R.S. Employer

Identification No.)

**2207 Bridgepointe Parkway, Suite 500**

**San Mateo, California 94404**

**(650) 645-3000**

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

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

<b>Title of Class</b>	<b>Outstanding as of June 30, 2011</b>
Common Stock, par value \$.001 per share	47,183,153

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**Actuate Corporation**

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

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 45,780	\$ 33,269
Short-term investments	9,143	46,055
Accounts receivable, net of allowances of \$671 and \$615 at June 30, 2011 and December 31, 2010, respectively	24,694	28,642
Other current assets	7,219	5,845
<b>Total current assets</b>	<b>86,836</b>	<b>113,811</b>
Property and equipment, net	2,480	3,126
Goodwill	46,424	46,424
Purchased intangibles	12,546	15,492
Non-current deferred tax assets	15,131	15,336
Other assets	1,233	1,442
	<b>\$ 164,650</b>	<b>\$ 195,631</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,739	\$ 1,589
Current portion of restructuring liabilities	334	1,285
Accrued compensation	5,087	5,950
Other accrued liabilities	5,457	5,051
Income taxes payable		2,030
Deferred revenue	44,592	44,600
<b>Total current liabilities</b>	<b>57,209</b>	<b>60,505</b>
Long-term liabilities:		
Note payable		40,000
Other liabilities	60	268
Long-term deferred revenue	1,121	1,347
Long-term income taxes payable	746	889
<b>Total long-term liabilities</b>	<b>1,927</b>	<b>42,504</b>
Commitments and contingencies (Note 8)		
Non-controlling interest in subsidiary	713	693

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Stockholders' equity:		
Preferred stock, \$0.001 par value, issuable in series; 5,000,000 shares authorized; none issued or outstanding		
Common stock, \$0.001 par value, 100,000,000 shares authorized; issued 82,334,370 and 80,764,172 shares, respectively; outstanding 47,183,153 and 45,612,955 shares, respectively	47	46
Additional paid-in capital	200,656	192,048
Treasury stock, at cost; 35,151,217 shares	(137,335)	(137,335)
Accumulated other comprehensive income	3,203	1,200
Retained earnings	38,230	35,970
Total stockholders' equity	104,801	91,929
	\$ 164,650	\$ 195,631

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

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**ACTUATE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
License fees	\$ 12,442	\$ 10,030	\$ 24,099	\$ 19,622
Services	21,296	20,260	41,727	39,742
<b>Total revenues</b>	<b>33,738</b>	<b>30,290</b>	<b>65,826</b>	<b>59,364</b>
<b>Costs and expenses:</b>				
Cost of license fees	461	498	942	938
Cost of services	5,224	5,099	10,655	9,626
Sales and marketing	10,371	10,177	21,396	19,701
Research and development	6,269	6,348	12,650	12,270
General and administrative	5,304	7,389	10,738	14,372
Amortization of other purchased intangibles	359	461	718	822
Asset impairment	1,681		1,681	
Restructuring charges	437	277	731	664
<b>Total costs and expenses</b>	<b>30,106</b>	<b>30,249</b>	<b>59,511</b>	<b>58,393</b>
<b>Income from operations</b>	<b>3,632</b>	<b>41</b>	<b>6,315</b>	<b>971</b>
Interest income and other income/(expense), net	(2,102)	(382)	(1,822)	(885)
Interest expense	(233)	(455)	(645)	(872)
<b>Income (loss) before income taxes</b>	<b>1,297</b>	<b>(796)</b>	<b>3,848</b>	<b>(786)</b>
Provision (benefit) for income taxes	716	(202)	1,588	(1,751)
<b>Net income (loss)</b>	<b>\$ 581</b>	<b>\$ (594)</b>	<b>\$ 2,260</b>	<b>\$ 965</b>
<b>Basic net income (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ 0.05</b>	<b>\$ 0.02</b>
Shares used in basic per share calculation	46,656	44,947	46,264	45,171
<b>Diluted net income (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ 0.04</b>	<b>\$ 0.02</b>
Shares used in diluted per share calculation	51,049	44,947	50,648	49,481

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

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**ACTUATE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, unaudited)

	Six Months Ended June 30,	
	2011	2010
<b>Operating activities</b>		
Net income	\$ 2,260	\$ 965
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense related to stock options and employee stock purchase plan	2,795	2,996
Excess tax benefit from exercise of stock options	(463)	(500)
Amortization of other purchased intangibles	1,265	1,388
Amortization of debt issuance cost	144	143
Depreciation	1,050	948
Change in valuation allowance on deferred tax assets	89	(1,652)
Impairment of intangible assets	1,681	
Accretion/amortization on short-term debt securities	(408)	89
Realized gain on Auction Rate Securities (ARS)		(1,032)
Unrealized (gain)/loss on ARS		80
Realized loss on fair value of put option		1,032
Unrealized (gain)/loss on fair value of put option		(93)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Accounts receivable, net of allowance	3,948	14,935
Other current assets	(213)	3,201
Accounts payable	87	(950)
Accrued compensation	(863)	(371)
Other accrued liabilities	406	(3,161)
Deferred tax assets, net of liabilities	111	331
Income taxes receivable	(776)	333
Income taxes payable	(1,877)	(789)
Other deferred liabilities	(208)	(184)
Restructuring liabilities	(977)	(872)
Deferred revenue	(234)	(4,777)
 Net cash provided by operating activities	 7,817	 12,060
<b>Investing activities</b>		
Purchases of property and equipment	(341)	(462)
Proceeds from sale and maturity of investments	57,365	12,588
Purchases of short-term investments	(20,057)	(15,274)
Acquisition of Xenos Group Inc., net of cash acquired		(27,343)
Proceeds from security deposits and other	92	(237)
 Net cash provided by (used in) investing activities	 37,059	 (30,728)
<b>Financing activities</b>		
Repayment of long term debt	(40,000)	
Proceeds from the Credit Facility, net of issuance cost		9,986
Excess tax benefit from exercise of stock options	463	500
Proceeds from issuance of common stock	5,158	2,960
Stock repurchases		(9,999)

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Net cash provided by (used in) financing activities	(34,379)	3,447
Effect of exchange rates on cash and cash equivalents	2,014	(496)
Net increase/(decrease) in cash and cash equivalents	12,511	(15,717)
Cash and cash equivalents at the beginning of the period	33,269	53,173
Cash and cash equivalents at the end of the period	\$ 45,780	\$ 37,456

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



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**ACTUATE CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

*The Company*

Actuate Corporation ( we , Actuate or the Company ) was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998. Actuate provides software and services to develop and deploy custom Business Intelligence and information applications that deliver rich interactive content that improve customer loyalty and corporate performance. Applications built on Actuate s open source-based platform provide all stakeholders inside and outside the firewall, including employees, customers, partners and citizens with information that they can easily access and understand to maximize revenue, cut costs, improve customer satisfaction, streamline operations, create competitive advantage and make better decisions. Our goal is to ensure that all users can use decision-making information in their day-to-day activities, opening up completely new avenues for improving corporate performance.

Actuate s principal executive offices are located at 2207 Bridgepointe Parkway, San Mateo, California. Actuate s telephone number is 650-645-3000. Actuate maintains Web sites at [www.actuate.com](http://www.actuate.com), [www.birt-exchange.org](http://www.birt-exchange.org) and [www.birt-exchange.com](http://www.birt-exchange.com).

*Basis of Presentation*

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its financial position, results of operations and cash flows. The Company s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Actuate s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 11, 2011.

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

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

As of June 30, 2011, Actuate owns approximately 88% of the outstanding voting stock of Actuate Japan Company Ltd. ( Actuate Japan ). The Company has consolidated the results of Actuate Japan from the date that it became the majority shareholder, which occurred in fiscal year 2000. Actuate Japan s financial results are reflected in revenue, cost of revenue and expense categories in the consolidated statement of operations.

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**ACTUATE CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***Revenue Recognition***

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

For sales to end-user customers, Actuate recognizes license revenues when a license agreement has been signed by both parties or a definitive agreement has been received from the customer, the product has been physically shipped or electronically made available, there are no unusual uncertainties surrounding the product acceptance, the fees are fixed or determinable, collectability is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement. Vendor-specific objective evidence of fair value of sales to end users is based on the price charged when an element is sold separately.

Actuate has not established vendor-specific objective evidence of fair value for its licenses. Therefore, the Company recognizes revenues from arrangements with multiple elements involving software licenses under the residual method, which means the fair value of the undelivered elements is deferred while the remaining value of the arrangement is allocated to the delivered elements. If the license agreement contains payment terms that would indicate that the fee is not fixed or determinable, revenues are recognized as the payments become due and payable, assuming that all other revenue recognition criteria are met.

Actuate enters into reseller and distributor arrangements that typically give such distributors and resellers the right to distribute its products to end-users headquartered in specified territories. Actuate recognizes license revenues from arrangements with U.S. resellers and distributors when there is persuasive evidence of an arrangement with the reseller or distributor, the product has been shipped, the fees are fixed or determinable, collectability is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement. Actuate recognizes license revenues from arrangements with international resellers and distributors upon receipt of evidence of sell-through and when all other revenue recognition criteria have been met. If it is not practical to obtain evidence of sell-through, the Company defers revenues until the end-user has been identified and cash has been received. In some instances there is a timing difference between when a reseller completes its sale to the end-user and the period in which Actuate receives the documentation required for revenue recognition. Because Actuate delays revenue recognition until the reporting period in which the required documentation is obtained, it may recognize revenue in a period subsequent to the period in which the reseller completes the sale to its end-user.

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

Actuate also has two software-as-a-service (SaaS) offerings called OnPerformance and BIRT onDemand. Actuate recognizes revenue on these licenses ratably over the term of the underlying arrangement.

The Company typically establishes vendor specific objective evidence of fair value for maintenance and support using a bell-shaped curve approach. However, for certain types of license transactions, including OEM and site licenses, the Company uses a stated maintenance renewal approach.

The Company assesses the collectability of fees from end-users based on payment history and current credit profile. When a customer is not deemed credit-worthy, revenues are deferred and recognized upon cash receipt.

Actuate recognizes maintenance revenues, which consist of fees for ongoing support and unspecified product updates, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to standard implementation and configuration. Training revenues are generated from classes offered at the Company's headquarters and customer locations. Revenues from consulting and training services are

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typically recognized as the services are performed. When a contract includes both license and service elements, the license fee is typically recognized on delivery of the software, assuming all other revenue recognition criteria are met, provided services do not include significant customization or modification of the product and are not otherwise essential to the functionality of the software.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Share-Based Compensation**

The Company has various types of share-based compensation plans. These plans are administered by the compensation committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. Readers should refer to Note 8 of the Company's consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010, for additional information related to these share-based compensation plans. Share-based compensation expense and the related income tax benefit reflected in the Condensed Consolidated Statements of Operations in connection with stock options, restricted stock units and the Employee Stock Purchase Plan ( ESPP ) for the three and six months ended June 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Stock options	\$ 1,214	\$ 1,334	\$ 2,620	\$ 2,575
Restricted stock units	229	104	414	170
ESPP	264	114	488	251
Total share-based compensation	\$ 1,707	\$ 1,552	\$ 3,522	\$ 2,996
Income tax benefit	\$ 500	\$ 508	\$ 1,038	\$ 985

Included in the total share-based compensation for the three and six months ending June 30, 2011 are approximately \$131,000 and \$727,000 of stock based compensation classified as liability based awards.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. We estimated the expected term of options granted by analyzing actual historical experience of exercises and cancellations under our plan. We also looked at the average length of time in which our current outstanding options are expected to be exercised or cancelled based on past experience and the vesting and contractual term. We estimated the volatility of our common stock by using historical volatility over the calculated expected term. We based the risk-free interest rate that we use in the option valuation model on the published Treasury rate. We do not anticipate paying any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in the option valuation model. The assumptions used to estimate the fair value of stock options granted and stock purchase rights granted under our Employee Stock Purchase Plan (the Purchase Plan ) for the six months ended June 30, 2011 and 2010 are as follows:

	Options				ESPP	
	Six Months Ended		Six Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Volatility	53.88	54.28%	54.17	54.73%	42.34%	40.15%
Expected term (years)	5.62	5.69	5.66	5.71	1.25	1.25
Risk free interest rate	1.76	2.21%	2.125	2.25%	0.27%	0.35%
Expected dividend yield		0%		0%	0%	0%
Forfeiture rate		2%		2%	N/A	N/A

Effective January 2010, restricted stock units ( RSUs ) were granted to senior management as part of the Company's annual incentive compensation program under the Amended and Restated 1998 Equity Incentive Plan. RSUs are valued based on the closing price of the

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Company's common stock on the grant date. In general, restricted stock units vest over four years with annual cliff vesting and are subject to the employees' continuing service to the Company. For each restricted stock unit granted under the 1998 Plan, a share reserve ratio is applied for the purpose of determining the remaining number of shares reserved for future grants under the plan. The share reserve ratio is 1:1 for each restricted stock unit granted, and an equivalent of 1 share will be deducted from the share reserve for each restricted stock unit issued. Likewise, each forfeited restricted stock unit increases the number of shares available for issuance by the applicable rate at the time of forfeiture. As of June 30, 2011, a total of 433,750 and 384,687 RSUs were granted and outstanding, respectively, to the Company's senior management and non-employee Board of Directors. As of June 30, 2010, a total of 188,750 RSUs were granted and outstanding to the Company's senior management and non-employee Board of Directors.

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In February 2011, the Board of Directors approved the acceleration of 333,333 stock options that had been previously granted to a senior executive that had recently passed away. In addition, the exercise terms for these accelerated options along with 129,167 of vested options were extended from one to two years. As such, the full fair value of these options was measured as of the modification date and fully expensed at that time. Since there was no longer a performance obligation at the date of modification associated with these options, an alternate classification and accounting under GAAP was required. As a result, these accelerated options were to be measured and classified as liability rather than equity. Accordingly, at the end of each quarter, we calculate the revised fair value of these options and recognize any corresponding gain or loss to income. We will continue this accounting treatment until these options are fully exercised. Included in the total share-based compensation for the three and six months ending June 30, 2011 are approximately \$131,000 and \$727,000 of stock based compensation classified as liability based awards.

**Net Income (Loss) Per Share**

The Company computes basic net income per share using the weighted-average number of common shares outstanding during the period, less weighted average shares subject to repurchase. The Company computes diluted net income per share using the weighted-average number of common shares and dilutive share-based awards during the period determined by using the treasury stock method.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Weighted-average common shares outstanding	46,656	44,947	46,264	45,171
Weighted-average dilutive common equivalent shares under the treasury stock method	4,393		4,384	4,310
Weighted-average common shares used in computing diluted net income (loss) per share	51,049	44,947	50,648	49,481

Under the treasury stock method, stock options with exercise prices exceeding the average share price of the Company's common stock during the applicable period are excluded from the diluted earnings per share computation. The weighted-average number of shares excluded from the calculation of diluted net income was 4,276,729 and 4,269,166 in the three and six months ended June 30, 2011, respectively. No restricted stock units were excluded from the diluted earnings per share computation as they were all dilutive for the three and six months ended June 30, 2011. All outstanding stock options and shares subject to repurchase have been excluded from the calculation of diluted net loss per share in the three months ended June 30, 2010, because all such stock options are anti-dilutive. In the three and six months ended June 30, 2010, the Company excluded 17,103,995 and 6,282,250 stock options from its calculation of weighted-average common shares used in computing dilutive net income (loss) per share. Such stock options, had they been dilutive, would have been included in the computation of diluted net income per share.

The weighted average exercise price of excluded stock options was \$5.85 and \$5.89 for the three and six months ended June 30, 2011, respectively. The weighted average exercise price of excluded stock options was \$3.97 and \$5.85 for the three and six months ended June 30, 2010, respectively.

**Income Taxes**

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The Company calculates its interim income tax provision in accordance with Financial Accounting Standards Board ( FASB ) authoritative guidance on income taxes and obligations for uncertain tax positions. At the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect, are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes. Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

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A valuation allowance is required, if based on the weight of available evidence it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence, including our past operating results, the existence of cumulative losses in the most recent years and our forecast of future taxable income on a jurisdiction by jurisdiction basis. In determining future taxable income, we are responsible for assumptions utilized including the amount of state, federal and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

We continue to believe there is sufficient evidence to support the utilization of certain deferred tax assets. If sufficient positive evidence exists and it is more likely than not that the benefit will be realized with respect to the remaining deferred tax assets, we will release the valuation allowance. This adjustment to the valuation allowance would decrease tax expense. During the second quarter of fiscal 2011, we released a valuation allowance totaling approximately \$7,000 related to the German deferred tax assets. Likewise, if there is a reduction in the projection of future U.S. and foreign income, we may need to increase the valuation allowance. Any increase in the valuation allowance would increase tax expense in the period such a determination was made.

We did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. The Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Due to uncertainties in any tax audit outcome, our estimates of the ultimate settlement of our unrecognized tax positions may change and the actual tax benefits may differ significantly from the estimates.

**Sales Taxes**

The Company presents its revenues net of sales tax in its Condensed Consolidated Statements of Operations.

**Comprehensive Income (loss)**

Other comprehensive income (loss) includes currency translation adjustments and unrealized gain (loss) on investments that are not included in net income, but rather are recorded directly in stockholders' equity. Comprehensive income (loss) during the three and six months ended June 30, 2011 and 2010 was comprised of the following (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income (loss)	\$ 581	\$ (594)	\$ 2,260	\$ 965
Foreign currency translation gain (loss)	1,539	(435)	2,014	(496)
Unrealized loss on investments	(13)	(2)	(11)	(38)
Total comprehensive income (loss)	\$ 2,107	\$ (1,031)	\$ 4,263	\$ 431

The Company recorded approximately \$1.5 million and \$2 million in foreign currency translation gains in the second quarter and the first half of fiscal 2011, respectively. These gains related primarily to the translation and consolidation of its European operations. These gains were significantly higher during the second quarter and the first half of fiscal 2011 as compared to the losses reported in fiscal 2010 due primarily to the strength of the Swiss Franc against the U.S. Dollar during fiscal 2011.



***Recent Accounting Pronouncements***

In June 2011, the Financial Accounting Standards Board, or FASB, issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on our financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on our financial statements.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Correction of immaterial errors in current financial statements***

During the second quarter of 2011, the Company adjusted its accounting for foreign exchange revaluation of a non-monetary liability, resulting in a current quarter expense before tax of approximately \$173,000. The adjustment affects the Interest Income and Other Income/(Expense), Net line item in the Consolidated Statements of Operations for the quarter ended June 30, 2011. Management evaluated the materiality of the error from a qualitative and quantitative perspective and concluded that the error was immaterial to the current and prior periods. The Company has not revised the accompanying historical consolidated financial statements.

**2. Acquisition of Xenos Group Inc.**

On February 1, 2010, we completed the acquisition of Xenos Group Inc. ( Xenos ), a provider of high-performance software solutions that utilize the scalable Xenos Enterprise Server(TM) and its components to process, extract, transform, repurpose and personalize high volumes of data and documents for storage, real-time access, ePresentment, printing and delivery in numerous formats across multiple channels. By readily repurposing, integrating with and extending the business value of existing technology, infrastructure and business applications, Xenos solutions empower organizations to adapt to changing market demands. They also improve operational efficiency, enhance business processes, reduce risk for compliance management and increase employee productivity with lowered total cost of ownership both for the enterprise and for its customers.

The acquisition was concluded for total consideration of approximately \$34.3 million (\$27.3 million, net of \$6.9 million of Xenos cash at the time of the acquisition). Under the terms of the agreement, we completed our tender offer to acquire all of the outstanding shares of Xenos common stock at a price of CAD 3.50 per outstanding share. We have included the financial results of Xenos in our Consolidated Financial Statements beginning on the acquisition date.

Assets acquired and liabilities assumed were recorded at their fair values as of February 1, 2010. The total \$34.3 million purchase price was comprised of the following (in thousands):

	<b>In U.S. Dollars</b>
Acquisition of approximately 10 million shares of outstanding common stock of Xenos at CAD 3.50 per share in cash	\$ 33,149
Net payout for exercise of 707,000 of outstanding employee options at CAD 3.50 per option, (net of exercise price)	1,123
Estimated fair value of 30,750 earned stock options assumed and converted	60
Total purchase price	\$ 34,332

Under the terms of the Xenos stock option plan, any outstanding options held as of the date of acquisition became immediately vested and exercisable. In connection with the acquisition, each holder of Xenos stock options was offered one of three options: 1) to surrender the Xenos options in order to receive cash equal to the difference between CAD \$3.50 and the exercise price of the options for each option surrendered, 2) to exercise the options in order to receive common shares, effective immediately prior to the acquisition date (those common shares would then be acquired by Actuate at a price of CAD \$3.50 per share), or 3) to exchange the Options for equivalent Actuate options to purchase common shares of Actuate. The Xenos options would be exchanged for Actuate Options at a calculated exchange ratio and are exercisable for Actuate Shares. The exchanged options would be fully vested and be exercisable on the day after the acquisition. Other terms of the Options would remain the same.

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A total of 707,000 options were surrendered under option number 1 presented above. A net of \$1.1 million in cash was paid to the option holders related to these surrendered options. This net amount was included in the total purchase consideration.

We converted options to purchase 30,750 vested shares of Xenos common stock into options to purchase approximately 19,025 shares of Actuate common stock under option 3 listed above. The estimated fair value of the stock options assumed and converted that is included in the purchase price equals \$59,784. The estimated fair value of these options was determined using a Black-Scholes Merton option valuation model with the following assumptions: volatility of 66.73%; weighted average risk-free interest rate of .88%; and a dividend yield of 0%. The underlying stock price used in valuing the options was \$5.31, which was the closing price for Actuate Stock on February 1, 2010.

Direct transaction costs related to the Xenos acquisition totaling approximately \$1.1 million were incurred. These costs include investment banking fees, legal and accounting fees, and other external costs directly related to the acquisition. All costs were directly charged to general and administrative expense on the Condensed Consolidated Statements of Operations as incurred.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Purchase Price Allocation***

Under the purchase accounting method, the total purchase price was allocated to Xenos' net tangible and intangible assets based upon their estimated fair values as of February 1, 2010. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill.

The table below represents the allocation of the purchase price to the acquired net assets of Xenos based on their estimated fair values as of February 1, 2010 and the associated estimated useful lives at that date. Also, as with acquisitions that we have undertaken in the past, we have initiated structural changes in our corporate structure in order to incorporate the Xenos entities. These changes in our organizational structure are ongoing and could also affect our estimates and assumptions.

	<b>Amount</b> <b>(in thousands)</b>	<b>Weighted</b> <b>Average</b> <b>Useful life</b> <b>(in years)</b>
Net tangible assets and liabilities	\$ 6,327	N/A
Existing technology	7,657	7
Customer contracts and relationships	8,030	7
In-process research and development ( IPR&D )	1,961	7
Favorable leases	47	5
Goodwill	10,310	N/A
<b>Total purchase price allocation</b>	<b>\$ 34,332</b>	

*Net tangible assets and liabilities* Xenos' tangible assets and liabilities as of February 1, 2010 were adjusted to their estimated fair value as necessary. Among the net tangible assets assumed were \$6.9 million in cash and cash equivalents and \$1.8 million in trade receivables.

*Identifiable intangible assets* Existing technology acquired primarily consists of Xenos' Enterprise Server, Xenos D2e, Xenos terminalONE, and Xenos InfoWeb. The estimated fair value of the existing technology was determined based on the present value of the expected cash flows to be generated by each existing technology. Customer contracts and relationships consist of Xenos' contractual relationships and customer loyalty related to their customers as well as partner customers that resell Xenos' services to end users. We expect to amortize the fair value of these intangible assets on a straight-line basis over their respective estimated useful lives.

*In-process research and development* In-process research and development ( IPR&D ) represents the fair value of a development project that was underway at Xenos and was not yet completed as of the date of the acquisition. At the date of the acquisition the development team was still in the final stages of development and was in the process of performing final fixes to the software and finalizing minor functionality. The estimated fair value was determined by estimating the net cash flows expected to be generated from the project and discounting the net cash flows to their present value. The underlying product was released on June 28, 2010 and the fair value of this intangible asset was amortized on a straight-line basis over the respective estimated useful life of seven years beginning July 2010. During the second quarter of 2011, the Company recorded \$1.7 million of in-process research and development ( IPR&D ) impairment charges related to this project. This impairment was deemed necessary due to the fact that changes in circumstances indicated to management that the carrying value of the IPR&D may not be recoverable. Based on an analysis of historical sales of the product since its release in the second quarter of fiscal 2010, as well as the calculation of a discounted cash flow analysis projecting expected cash flows through the remaining useful life of the product, it was determined that the IPR&D balance should be impaired down to zero.

*Goodwill* Goodwill represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets. The factors that contributed to the recognition of goodwill included securing buyer-specific synergies that increase revenue and profits and are not otherwise available to a marketplace participant.

### **3. Investment in Actuate Japan**

*Non-controlling (minority) Interest* The minority shareholder of Actuate Japan has a non-expiring option to put its equity interest (non-controlling interest) in Actuate Japan to the Company and the Company has the option to call the Non-controlling interest. The redeemable non-controlling interest as of June 30, 2011 was approximately 12% of the total equity interest. If the non-controlling interest shareholder chose to put these remaining shares to the Company, Actuate would be required to pay approximately \$713,000 to purchase these shares. The Company measures and discloses a redeemable non-controlling interest in accordance with the policy discussed above at the calculated redemption value of the put option embedded in the non-controlling interest. The non-controlling shareholder is also a distributor of Actuate products in Japan, although the volume of revenues sold through this distributor has historically been immaterial to Actuate Corporation. The Company consolidated 100% of the operating results and all investments in the subsidiary are eliminated in consolidation. Although the Company plans to maintain and expand our selling and marketing activities in Japan to add new customers, the future liquidity requirements of Actuate Japan is not expected to be significant in the near future. As of the date of this filing, the remaining non-controlling shareholder has not notified the Company of any intent to exercise its put option.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****4. Fair Value Measurements**

The Company adheres to FASB's authoritative guidance related to the fair value measurements of assets and liabilities. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For certain of our financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and other current liabilities the carrying amounts approximate their fair value due to the relatively short maturity of these balances. The Company also believes that the carrying value of its note payable approximates fair value as the interest rate on this note is based on a floating market rate.

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

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

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

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

**Assets Measured at Fair Value on a Recurring Basis**

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

	Total	Fair value of investments as of June 30, 2011		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds (1)	\$ 13,578	\$ 13,578	\$	\$
Term deposits (1)	1,342	1,342		
Commercial paper (3)	2,998		2,998	
Corporate bonds (2)	8,407		8,407	
Federal and municipal obligations (2)	1,001		1,001	
	\$ 27,326	\$ 14,920	\$ 12,406	\$

Fair value of investments as of December 31, 2010

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	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds (1)	\$ 7,319	\$ 7,319	\$	\$
Term deposits (1)	5,056	5,056		
Commercial paper (3)	17,486		17,486	
Corporate bonds (2)	28,071		28,071	
Federal and municipal obligations (2)	1,998		1,998	
	\$ 59,930	\$ 12,375	\$ 47,555	\$

- (1) Included in cash and cash equivalents in the Company's condensed consolidated balance sheets.
- (2) Of these amounts, approximately \$1.3 million was included in cash and cash equivalents at June 30, 2011, and the remainder was included in short-term investments in the Company's condensed consolidated balance sheets.
- (3) Of these amounts, approximately \$2 million and \$1.5 million were included in cash and cash equivalents at June 30, 2011 and December 31, 2010, respectively, and the remainder was included in short-term investments in the Company's condensed consolidated balance sheets.

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

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Balance at June 30, 2011				
Classified as cash and cash equivalents:				
Cash	\$ 27,597	\$	\$	\$ 27,597
Term deposits	1,342			1,342
Money market funds	13,578			13,578
Commercial paper (4)	2,000		(1)	1,999
Corporate bonds (4)	1,265		(1)	1,264
	45,782		(2)	45,780
Classified as short-term investments:				
Commercial paper (4)	1,000		(1)	999
Corporate bonds (4)	7,145	8	(10)	7,143
Federal and municipal obligations	1,001			1,001
	9,146	8	(11)	9,143
Total	\$ 54,928	\$ 8	\$ (13)	\$ 54,923

- (4) Securities totaling approximately \$9.4 million were in an unrealized loss position at June 30, 2011. None of these securities were in a continuous unrealized loss position for greater than 12 months.

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Balance at December 31, 2010				
Classified as cash and cash equivalents:				
Cash	\$ 19,394	\$	\$	\$ 19,394
Term deposits	5,056			5,056
Money market funds	7,319			7,319
Commercial paper	1,500			1,500
	33,269			33,269
Classified as short-term investments:				
Commercial paper (4)	15,989	2	(5)	15,986
Corporate bonds	28,059	47	(35)	28,071
Federal and municipal obligations	2,000		(2)	1,998



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	46,048	49	(42)	46,055
<b>Total</b>	<b>\$ 79,317</b>	<b>\$ 49</b>	<b>\$ (42)</b>	<b>\$ 79,324</b>

- (4) Securities totaling approximately \$15 million were in an unrealized loss position at December 31, 2010. None of these securities were in a continuous unrealized loss position for greater than 12 months.

Short-term investments are classified as available-for-sale and are recorded on the Company's Consolidated Balance Sheet at fair market value with unrealized gains or losses reported as a separate component of Accumulated Other Comprehensive Income. At June 30, 2011, the Company has classified all of its securities with original maturities beyond 90 days as short-term investments, even though the stated maturity dates may be one year or more beyond the current balance sheet date as these investments remain highly liquid and available for use in current operations.

### *Assets Measured at Fair Value on a Nonrecurring Basis*

The fair value of other identifiable intangible assets is based on detailed valuations using the income approach. Other intangible assets consist of purchased technology and patents, customer lists and relationships, distribution agreements, and trademarks, all of which are amortized using the straight-line method over their estimated useful lives, ranging from 5 to 7 years. The Company reviews other intangible assets for impairment as changes in circumstance or the occurrence of events suggest the carrying value may not be recoverable. During the second quarter of fiscal 2011, the Company recorded \$1.7 million of in-process research and development (IPR&D) impairment charges. The Company had previously recorded IPR&D representing the fair value of a project that was underway at Xenos at the time of acquisition. The product underlying this IPR&D item was released on June 28, 2010 and the fair value of this intangible asset was amortized on a straight-line basis over the respective estimated useful life of seven years beginning July 2010. During the second quarter of 2011, the Company deemed that it was necessary to impair this IPR&D due to the fact that changes in circumstances indicated to management that the carrying value of the IPR&D was not recoverable. Accordingly, the Company used level 3 inputs to measure the fair value associated with this IPR&D. Based on an analysis of historical sales of the product since its release in the second quarter of fiscal 2010, as well as the calculation of a discounted cash flow analysis projecting expected cash flows through the remaining useful life of the product, it was determined that the IPR&D balance should be impaired down to zero.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****5. Restructuring Charges**

During the first quarter of fiscal 2011, the Company implemented restructuring actions that resulted in an aggregate charge of \$294,000 and the elimination of most of its Canadian subsidiary's general and administrative department. Also included in the aggregate charges for the first quarter of 2011 was a \$125,000 idle facilities charge related to the Company's South San Francisco facility.

During the second quarter of fiscal 2011, we implemented a plan to restructure parts of our North America product development and global sales and marketing operations in order to align our cost structure with our current business plan. As a result of the restructuring program, we reduced our global workforce by 26 positions and recorded \$720,000 of restructuring charges related to employee severance arrangements. In addition to these charges, we reversed approximately \$283,000 of a previously accrued severance liability. This severance liability was initially recorded in December 2004 in connection with litigation related to a previous reduction in work force in Europe. A recent risk assessment rendered by management has indicated that the Company maintains adequate legal defenses and further settlement payments are no longer a significant risk. Accordingly, this liability was reversed at the end of the second quarter of fiscal 2011.

Historically, restructuring charges have included costs associated with reductions in workforce, exits of idle facilities and disposals of fixed assets. These restructuring charges were based on actual and estimated costs incurred including estimates of sublease income on portions of our idle facilities that we periodically update based on market conditions and in accordance with our restructuring plans. These estimates were impacted by the rules governing the termination of employees, especially those in foreign countries.

The following table summarizes the restructuring accrual activity during the six months ended June 30, 2011 (in thousands):

	<b>Severance &amp; Benefits</b>	<b>Facility Related</b>	<b>Total</b>
Balance at December 31, 2010	\$ 654	\$ 631	\$ 1,285
Restructuring charges	606	125	731
Cash payments, net of rents collected on sublease for Q1	(425)	(339)	(764)
Cash payments, net of rents collected on sublease for Q2	(650)	(322)	(972)
Reclassified as a long-term asset (1)		26	26
Adjustments (2)	28		28
<b>Balance at June 30, 2011</b>	<b>213</b>	<b>121</b>	<b>334</b>
Less: current portion	(213)	(121)	(334)
<b>Long-term balance at June 30, 2011</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(1) The adjustment represents the long-term portion of the estimated operating expenses reimbursable to Actuate under its South San Francisco facility sublease agreement. This reimbursable expense was initially reclassified out of the restructuring accrual and into long-term assets in fiscal 2010.

(2) Adjustments mainly reflect the impact of foreign currency translation.

**6. Segment and Geographic Information**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>				
North America	\$ 25,810	\$ 24,595	\$ 51,358	\$ 46,895
Europe	5,710	4,664	10,800	10,347
Asia Pacific and others	2,218	1,031	3,668	2,122
	<b>\$ 33,738</b>	<b>\$ 30,290</b>	<b>\$ 65,826</b>	<b>\$ 59,364</b>

As of June 30, 2011, we operated solely in one segment, which is the development, marketing and support of the Actuate Enterprise Reporting Application Platform. There were no customers that accounted for more than 10% of total revenues in the three months ended June 30, 2011 or 2010. There was no single customer that accounted for more than 10% of total revenues in the six months ended June 30, 2011 or 2010.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. Goodwill and Other Purchased Intangible Assets****Goodwill**

In accordance with the authoritative guidance issued by the FASB on accounting and reporting for acquired goodwill and other intangible assets, the Company performs its annual impairment test of goodwill on October 1 of each year. The Company's goodwill balance of \$46.4 million was unchanged at June 30, 2011 when compared to the balance reported at the end of fiscal year 2010.

**Intangibles**

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

	June 30, 2011			December 31, 2010			
	Gross Carrying Amount	Write-offs	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer lists	\$ 22,030	\$	\$ (15,625)	\$ 6,405	\$ 22,030	\$ (15,051)	\$ 6,979
Purchased technologies	15,659		(9,552)	6,107	15,659	(9,005)	6,654
IPR&D	1,961	(1,681)	(280)		1,961	(140)	1,821
Leases	47		(13)	34	47	(9)	38
	\$ 39,697	\$ (1,681)	\$ (25,470)	\$ 12,546	\$ 39,697	\$ (24,205)	\$ 15,492

IPR&D represents the fair value of a project that was underway at Xenos at the time of acquisition. The product underlying this IPR&D item was released on June 28, 2010 and the fair value of this intangible asset was amortized on a straight-line basis over the respective estimated useful life of seven years beginning July 2010. During the second quarter of 2011, the Company recorded \$1.7 million of in-process research and development (IPR&D) impairment charges related to this project. This impairment was deemed necessary due to the fact that changes in circumstances indicated to management that the carrying value of the IPR&D may not be recoverable. Based on an analysis of historical sales of the product since its release in the second quarter of fiscal 2010, as well as the calculation of a discounted cash flow analysis projecting expected cash flows through the remaining useful life of the product, it was determined that the IPR&D balance should be impaired down to zero.

Amortization expense of purchased technology and other intangible assets was approximately \$632,000 and \$789,000 for the quarters ended June 30, 2011 and 2010, respectively. Of this total, approximately \$273,000 and \$328,000 was related to the amortization of purchased technology. Amortization expense of purchased intangible assets was approximately \$1.3 million and \$1.4 million for the six months ended June 30, 2011 and 2010, respectively. Of this total, approximately \$547,000 and \$566,000 was related to the amortization of purchased technologies. Amortization of purchased technology is included in cost of license fees in the accompanying condensed consolidated statements of operations. The expected remaining annual amortization expense is summarized as follows (in thousands):

Fiscal Year	Purchased Technology and Intangibles
2011 (remainder of year)	\$ 1,124
2012	2,250

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2013	2,250
2014	2,250
2015 and thereafter	4,672
	\$ 12,546

### 8. Commitments and Contingencies

#### *General*

The Company is engaged in certain legal actions arising in the ordinary course of business. Although there can be no assurance as to the outcome of such litigation, the Company believes it has adequate legal defenses and it believes that the ultimate outcome of any of these actions will not have a material effect on the Company's consolidated financial position or results of operations. However, expenses associated with certain legal actions could result in increased operating expenses that may adversely impact the Company's future operating results and cashflows.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Revolving credit line***

In early November of 2008, the Company entered into a revolving Credit Agreement with Wells Fargo Foothill and secured a revolving line of credit in the principal amount of up to \$50 million. During the fourth quarter of fiscal 2008, the Company used \$30

million of its cash along with \$30 million of funds available through this Credit Facility to complete a \$60 million common stock buyback. During the first quarter of 2010, the Company borrowed an additional \$10 million of funds available through this Credit Facility to complete the acquisition of Xenos, which was completed on February 1, 2010. There are no minimum pay-down requirements under the terms of this Credit Facility so long as the Company remains in compliance with the terms of the Credit Agreement. Total costs associated with the facility, including legal and closing fees, amounted to approximately \$1.1 million. Of these total costs, approximately \$1 million was paid as of June 30, 2011. The remaining balance is comprised of a commitment fee totaling \$125,000 that is due and payable on the third anniversary of the date of the Credit Agreement, which will be in November 2011. These costs are being capitalized and amortized over four years in the Company's Consolidated Balance Sheet as current assets if amortized within one year or non-current assets if amortized beyond one year. The Credit Agreement is for a period of four years and is scheduled to expire on November 3, 2012.

In May 2011 the company paid down the outstanding balance on its revolving line of credit. The Company used \$40 million in cash and short-term investments in order to pay down this outstanding debt. As of June 30, 2011, there was no balance owed on this Credit Facility and the balance available under the revolving Credit Facility was approximately \$50 million. Interest is based on a floating rate plus an applicable margin based on the outstanding balance of the amount drawn under the Credit Agreement. The floating rate is determined at the Company's election and may either be (i) London Interbank Offered Rate ( LIBOR ) or (ii) the greater of the Federal Funds Rate plus applicable margin and the Prime Rate. If the Company's usage of the credit line exceeds 80% of its trailing four quarters of recurring maintenance revenue, or if the sum of available funds under the Credit Agreement plus available cash is less than \$10 million, the Company is required to meet certain minimum income targets and be subject to a limit on annual capital expenditures. As of June 30, 2011, the Company was able to meet the 80% test as well as the \$10 million minimum cash threshold and was therefore not subject to the income or the capital expenditures covenants. The Company was in compliance with these covenants at June 30, 2011. The Company is required to make interest payments on any outstanding balances and pay an unused commitment fee on any unused portion of the credit line or a monthly basis.

The following table represents costs related to our Credit Facility with Wells Fargo Financial ( WFF ) (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest expense	\$ 115	\$ 333	\$ 441	\$ 646
Amortization of debt issuance costs	72	71	144	143
Unused line fees	45	13	58	30
	\$ 232	\$ 417	\$ 643	\$ 819

The Credit Agreement contains covenants, which, among other things, impose certain limitations with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. In the event the Company does not meet the requirements specified above, a Triggering Event will be deemed to have occurred and the Company would be required to maintain the two financial covenants listed below:

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achieve income before interest and taxes, measured on a quarter-end basis, of at least the required amount set forth per the Credit Agreement,

limit the amount of capital expenditures to an amount not exceeding that set forth per the Credit Agreement.

The Company's indebtedness under the Credit Agreement is secured by a lien on (i) substantially all of its assets and the assets of Actuate International Corporation and (ii) by a pledge of all of its stock and a portion of the stock of each of its subsidiaries.

### *Operating Lease Commitments*

On September 1, 2007, the Company entered into a five year sublease agreement with a third party for approximately 83,000 square feet of office space in the Bridgepointe Campus in San Mateo, California. This lease is operating in nature, commenced on August 1, 2007 and ends on July 31, 2012. In addition, the lease provided for approximately nine months of free rent (rent holiday) and approximately \$600,000 in landlord incentives applied by Actuate towards construction of improvements. As a result, the Company straight-lined its rent expense and recorded a deferred rent liability on its consolidated balance sheet. At June 30, 2011, the deferred rent liability balance totaled approximately \$430,000 and this balance declines through 2012 when contractual cash payments exceed the straight-line lease expense. Of this total deferred rent liability balance, approximately \$394,000 was classified under the current accrued liabilities section of our consolidated balance sheet with the remaining portion of approximately \$36,000 classified

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

under other long term liabilities section of our consolidated balance sheet at June 30, 2011. The incentives were applied to leasehold improvements completed during the fourth quarter of fiscal 2007. Actuate also had been leasing an additional 50,400 square feet in one facility in South San Francisco, California. The lease on this facility expired in May 2011. This facility was entirely subleased through the end of its leased life. Actuate also leases smaller office facilities in various locations in the United States and abroad. All facilities are leased under operating leases. Total rent expense was approximately \$862,000 and approximately \$1.7 million in the second quarter and the first half of fiscal 2011, respectively, and approximately \$874,000 and approximately \$1.8 million in the second quarter and the first half of fiscal 2010, respectively.

***Equity Incentive Plans***

An individual who first joins the Board of Directors as a non-employee director is awarded an option to purchase 25,000 shares of the Company's Common Stock and a restricted stock unit award (RSU) covering 12,500 shares of the Company's Common Stock. These options and RSUs each have a four year vesting period tied to continued Board service. Each option has an exercise price equal to the closing price of the Company's Common Stock on the day of the grant, and 25% will vest upon the non-employee directors' continued Board service through the first anniversary of the award date and on an equal, monthly basis over the next 3 years of service thereafter. The first 25% of each restricted stock unit award will vest 13 months following the award date and the remainder will vest in a series of three successive equal annual installments on each of the second, third and fourth anniversaries of the award date, provided that the non-employee director continues in Board service through each such vesting date. Each non-employee director receiving an initial 12,500-share RSU award is given the opportunity to elect to defer the receipt of the shares of Actuate Common Stock that vest and become issuable pursuant to the initial RSU award. If a non-employee director makes a timely deferral election, then the shares of Actuate Common Stock in which he or she vests under the initial RSU award will be issued upon his termination of Board service. In the absence of an effective deferral election, any shares of the Company's Common Stock in which the non-employee director vests under the initial RSU award will be issued as those shares vest.

Each continuing non-employee director is awarded an option to purchase 16,000 shares of the Company's Common Stock and a RSU award covering 8,000 shares of the Company's Common Stock at each annual stockholders meeting. Each option has an exercise price equal to the closing price of Actuate's Common Stock on the day of the grant, and will vest upon the non-employee director's continued Board service through the first anniversary of the award date. Each restricted stock unit award granted to a continuing non-employee director will vest upon the non-employee director's continued Board service through the first anniversary of the award date. Before the start of each calendar year, each of our non-employee directors is given the opportunity to elect to defer the receipt of any or all of the shares of Actuate Common Stock that vest and become issuable pursuant to the restricted stock unit award to be made to such non-employee director at the next annual stockholders meeting. If a non-employee director makes a timely deferral election, then the shares of Actuate Common Stock in which he or she vests under the RSU award will be issued upon his termination of Board service. In the absence of an effective deferral election, any shares of the Company's Common Stock in which the non-employee director vests under the RSU award will be issued as those shares vest.

Each restricted stock unit award and each option award granted to a new or continuing non-employee director will vest in full on an accelerated basis upon (i) an approved acquisition of the Company by merger or consolidation, (ii) a sale of all or substantially all of the Company's assets, (iii) the successful completion of a tender or exchange offer for securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities, or (iv) the death or disability of the optionee while serving as a member of the Board of Directors. Each restricted stock unit that vests will entitle the recipient to one share of the Company's common stock on the designated issuance date for that share. All grants are made under the 1998 Plan.

In connection with the Xenos acquisition, Actuate's Board of Directors duly authorized the issuance of stock options to eligible employees from the Company's 1998 Equity Incentive Plan. A total of 573,800 non-statutory stock options were issued in February of 2010 with the exercise price of \$5.31. Each grant shall fully vest in four years with 25% cliff vesting at the end of year one and the remaining balance to vest in thirty-six successive monthly installments.

As an employee retention incentive, Actuate also invited Xenos employees who were holders of Xenos Options to exchange any Options that they did not exercise in connection with the Offer for options to purchase shares of common stock of Actuate on a tax-free rollover basis (an



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Option Exchange ). The replacement options issued by Actuate would have the same intrinsic value as the options given up by Xenos. On February 1, 2010, 30,750 Xenos options were exchanged for 19,025 Actuate options with exercise prices ranging from \$2.04 to \$3.54. These options were fully vested and exercisable at the date of exchange.

All options are subject to the same vesting schedule (twenty-five percent of the option shares will vest on the one year anniversary of the option grant date and the remaining option shares will vest in thirty-six equal monthly installments over the thirty-six month period measured from the first anniversary of the option grant date, provided the optionee continues to provide services to the Corporation through each applicable vesting date) and all have ten year terms.

Shares issued as a result of the exercise of options under any of our plans would be fulfilled through shares currently in our existing pools. Total authorized but unissued shares were 30,854,206 as of June 30, 2011.

The weighted average grant date fair value of options granted during the quarter ended June 30, 2011 was \$2.72 per option. Upon the exercise of options, the Company issues new common stock from its authorized shares. The total intrinsic value of options exercised during the quarter ended June 30, 2011 was \$2.0 million.

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

All vested stock options are exercisable. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0.78-\$1.49	3,004,636	1.67 years	\$ 1.49	3,004,636	\$ 1.49
\$1.56-\$2.99	1,607,511	3.13 years	\$ 2.63	1,603,686	\$ 2.63
\$3.00-\$3.59	2,162,512	5.92 years	\$ 3.55	1,620,961	\$ 3.55
\$3.63-\$4.60	1,360,803	3.86 years	\$ 4.07	1,072,700	\$ 4.09
\$4.63-\$5.10	1,886,932	6.55 years	\$ 4.80	1,001,188	\$ 4.79
\$5.11-\$5.43	1,946,604	6.35 years	\$ 5.16	1,547,457	\$ 5.13
\$5.44-\$6.06	1,683,206	9.27 years	\$ 5.49	96,103	\$ 5.60
\$6.10-\$8.56	1,920,578	5.58 years	\$ 6.30	1,703,557	\$ 6.32
<b>\$0.78-\$8.56</b>	<b>15,572,782</b>	<b>5.08 years</b>	<b>\$ 4.00</b>	<b>11,650,288</b>	<b>\$ 3.68</b>

	June 30, 2011	June 30, 2010
<b>Options Outstanding - Vested and Expected to Vest</b>		
Vested and expected to vest, net of expected forfeitures	15,468,832	16,878,648
Aggregate intrinsic value (in thousands)	\$ 29,530	\$ 16,450
Weighted average exercise price per share	\$ 4.00	\$ 3.96
Weighted average remaining contractual term (in years)	5.06	5.57
<b>Options Exercisable</b>		
Options currently exercisable	11,650,288	12,108,887
Aggregate intrinsic value of currently exercisable options (in thousands)	\$ 26,091	\$ 15,241
Weighted average exercise price per share	\$ 3.68	\$ 3.64
Weighted average remaining contractual term (in years)	3.94	4.44

As of June 30, 2011, the number of shares reserved for future grants under all option plans was 14,896,737. The number of shares available for future purchase under the Purchase Plan was 1,936,875.

**Summary of Restricted Stock Units**

Restricted stock unit activity for the six months ended June 30, 2011:

**RSU Activity  
during  
FY 2011**

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Beginning outstanding balance as of December 31, 2010:	182,500
Awarded	232,500
Released	(5,251)
Forfeited	(25,062)
Ending outstanding balance as of June 30, 2011:	384,687

The weighted average grant date fair value of restricted stock units granted during the quarter ended June 30, 2011 was \$5.47 per unit.

	Number of Units	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (thousands)
Restricted stock units outstanding	384,687	1.77	\$ 2,250
Restricted stock units vested and expected to vest (1)	373,181	1.75	\$ 1,860
Restricted stock units vested and deferred	55,250		\$ 323

(1) Net of expected forfeitures

**Table of Contents****ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. Deferred Revenue**

Deferred revenue consists of the following (in thousands):

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Maintenance and support	\$ 41,747	\$ 43,209
Other	3,966	2,738
	45,713	\$ 45,947
Less: current portion	(44,592)	(44,600)
Long-term deferred revenue	\$ 1,121	\$ 1,347

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

Other deferred revenue consists of deferred license, training and consulting fees generated from arrangements, which did not meet some or all of the American Institute of Certified Public Accountants (AICPA) guidance related to accounting for software revenue recognition and are, therefore, deferred until all revenue recognition criteria have been met.

**10. Subsequent Events**

In July 2011, a former employee in Europe resigned and filed a claim against the Company related to constructive termination. The Company believes that the majority of these claims are unfounded and that the probability of payout is low. Furthermore, if a judgment was enforced, it is unclear what the payout would be.

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

*The following information should be read in conjunction with the historical financial information and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q, the consolidated financial statements and notes thereto and the related Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on March 11, 2011.*

*The statements contained in this Form 10-Q that are not purely historical are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including statements regarding Actuate's expectations, beliefs, hopes, intentions, plans or strategies regarding the future. All forward-looking statements in this Form 10-Q are based upon information available to Actuate as of the date hereof, and Actuate assumes no obligation to update any such forward-looking statements. Actual results could differ materially from Actuate's current expectations. Factors that could cause or contribute to such differences include, but are not limited to, the risks discussed in Part II, Item 1A Risk Factors of this Form 10-Q, Part I, Item 1A Risk Factors in our Annual Report for the year ended December 31, 2010 and in other filings made by the Company with the Securities and Exchange Commission.*

**Overview**

Actuate Corporation ( we , Actuate or the Company ) was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998. Actuate provides software and services to develop and deploy custom Business Intelligence and information applications that deliver rich interactive content that improve customer loyalty and corporate performance. Applications built on Actuate's open source-based platform provide all stakeholders inside and outside the firewall, including employees, customers, partners and citizens with information that they can easily access and understand to maximize revenue, cut costs, improve customer satisfaction, streamline operations, create competitive advantage and make better decisions. Our goal is to ensure that all users can use decision-making information in their day-to-day activities, opening up completely new avenues for improving corporate performance. Actuate's telephone number is 650-645-3000. Actuate maintains Web sites at [www.actuate.com](http://www.actuate.com), [www.birt-exchange.org](http://www.birt-exchange.org) and [www.birt-exchange.com](http://www.birt-exchange.com) . The information posted on our Web sites is not incorporated into this Annual Report.

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

Despite the recent global recession, we have achieved profitability and positive cash flows in the recent quarters. Nevertheless, our business model and longer-term financial results are not immune to a sustained economic downturn. For example, the recent domestic and global economic downturn resulted in reduced demand for information technology, including enterprise software and services. Although we anticipate an improved environment, the direction and relative strength of the global economy continues to be uncertain and makes it difficult for us to forecast operating results and to make decisions about future investments. Information technology spending has historically declined as general economic and market conditions worsened. During challenging and uncertain economic times and in tight credit markets, many customers delay or reduce technology purchases. Contract negotiations may become more protracted or difficult if customers institute additional internal approvals for technology purchases or require more negotiation of contract terms and conditions. If these economic conditions return, it could result in reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable or delayed payments, slower adoption of new technologies, increased price competition and reductions in the rate at which our customers renew their maintenance agreements and procure consulting services. Furthermore, a significant portion of our revenues have historically been derived from customers in the financial services industry. The Company expects that it will continue to derive a significant portion of its revenues from these financial services customers for the foreseeable future. Unfavorable economic conditions have adversely impacted the financial services industry over the past several years. Although we anticipate an improved environment, if this adverse trend were to continue, it would likely have a material adverse effect on the Company's business, financial condition and results of operations.

We continue to monitor market conditions and may make adjustments to our business in order to reduce the adverse impact that changes to the economic environment could have on our business. We expect to continue to explore both organic and strategic growth opportunities. In particular, we may acquire companies or technology that can contribute to the strategic, operational and financial performance of our business. We believe that the combination of our solid financials, leading technology and strong customer relationships will help us successfully execute our strategies.

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For the remainder of fiscal 2011, we expect three additional trends to continue that would have a significant impact on the results of our operations. We currently believe that corporate IT budgets will grow modestly in fiscal year 2011, particularly among financial services companies in the United States and Western Europe. Second, corporations are reluctant to buy software from new vendors and we continue to witness corporations consolidating their Business Intelligence ( BI ), Analytics and Performance Management software purchases among fewer suppliers. Finally, we expect to experience vigorous competition in the BI market. Several of our competitors have released products that are marketed to be directly competitive with our offerings. As one of the few independent BI vendors remaining Actuate faces competition from large and well-established vendors, including Microsoft, SAP, Oracle and IBM all of which have acquired BI players to add to their technology stacks. The existence of these competitive products may require additional sales and marketing efforts to differentiate our products, which could result in extended sales cycles. We believe that competition in the BI and information applications market will be vigorous in the near future.

For the remainder of fiscal 2011, we currently plan to continue to pursue the strategic initiatives to improve revenue growth driven by BIRT, initiatives related to Performance Management, and pursuing opportunities related to traditional Xenos markets, which we acquired in 2010. These initiatives are as follows:

**Investing in BIRT** We are continuing to make a significant investment in BIRT. BIRT has become widely adopted by developers and continues to drive demand for our BIRT-based commercially available products, including ActuateOne. The BIRT project is a core, long-term initiative.

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

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

**Selling to Global 9000 Corporations in the Financial Services Sector** We continue to focus on selling our products to Global 9000 financial services companies in an effort to increase our substantive market share in this sector. We anticipate a slow recovery in IT spending in this sector through 2011.

**Building out and delivering on the roadmap of applying BIRT to additional data sources including hard to reach print stream data by investing in the development of BIRT based Xenos offerings.**

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

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	Three Months Ended June 30, (in thousands except per share data)			
	2011	2010	\$ Change	% Change
<b>Financial summary</b>				
Total revenues	\$ 33,738	\$ 30,290	\$ 3,448	11%
Total operating expenses	30,106	30,249	(143)	%
Income from operations	3,632	41	3,591	N/A
Operating margins	11%	%	11%	N/A
Net income (loss)	\$ 581	\$ (594)	\$ 1,175	198%
Diluted net income (loss) per share	\$ 0.01	\$ (0.01)	\$ 0.02	200 %
Shares used in diluted per share calculation	51,409	44,947		

*Financial performance summary for the quarter ended June 30, 2011 as compared to the quarter ended June 30, 2010:*

Increase in license revenues of 24% or approximately \$2.4 million due to continued improvement in BIRT related product sales.

Increase in services revenues of 5% or \$1 million due to higher maintenance and support revenues driven by improving license bookings over the past four consecutive quarters and slight improvement in our maintenance renewal decline rate.

Our operating expenses remained flat year over year. However, fiscal 2011 includes a one-time asset impairment charge of approximately \$1.7 million related to the write down of Xenos IPR&D. Excluding this one-time charge, our operating expenses decreased by approximately 6%. This decrease was primarily the result of lower legal expenses related to the contract compliance matter with Oracle Corporation which we settled in June of 2010.

**Critical Accounting Policies, Judgments and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make estimates, assumptions and judgments that can have a significant impact on the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On a regular basis we evaluate our estimates, assumptions and judgments and make changes accordingly. We believe that the estimates, assumptions and judgments involved in revenue recognition, allowances for doubtful accounts, stock-based compensation, accounting for income taxes, restructuring and integration costs, allocation of purchase price of acquisitions, and the impairment of goodwill, have the greatest potential impact on our Consolidated Financial Statements, so we consider these to be our critical accounting policies.

For further information about our significant accounting policies, see the discussion under Item 7 to the annual consolidated financial statements as of and for the year ended December 31, 2010, as filed with the SEC on Form 10-K on March 11, 2011.

**Table of Contents****Results of Operations**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
License fees	37%	33%	37%	33%
Services	63	67	63	67
<b>Total revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Costs and expenses:</b>				
Cost of license fees	1	2	1	2
Cost of services	15	17	16	16
Sales and marketing	31	33	33	33
Research and development	19	21	19	21
General and administrative	16	24	16	24
Amortization of other purchased intangibles	1	2	1	1
Asset impairment	5		3	
Restructuring charges	1	1	1	1
<b>Total costs and expenses</b>	<b>89</b>	<b>100</b>	<b>90</b>	<b>98</b>
<b>Income from operations</b>	<b>11</b>		<b>10</b>	<b>2</b>
Interest income and other income/(expense), net	(6)	(1)	(3)	(2)
Interest expense	(1)	(2)	(1)	(1)
<b>Income (loss) before income taxes</b>	<b>4</b>	<b>(3)</b>	<b>6</b>	<b>(1)</b>
Provision (benefit) for income taxes	2	(1)	3	(3)
<b>Net income (loss)</b>	<b>2%</b>	<b>(2)%</b>	<b>3%</b>	<b>2%</b>

**Revenues**

Our revenues are derived from license fees and services. Our services revenues include software maintenance and support, professional consulting and training. Our total revenues increased 11% from \$30.3 million for the quarter ended June 30, 2010 to \$33.7 million for the quarter ended June 30, 2011. We experienced revenue growth in North America of 5% or \$1.2 million and 39% or \$2.2 million in international regions.

Our maintenance revenue increased due to four consecutive quarters of improving license and first year maintenance bookings as well as slight improvement in our maintenance renewal decline rate. Also, our prior year second quarter services revenues were negatively impacted due to the fact that certain revenue could not be recognized due to the impact of purchase accounting on the acquired Xenos Group maintenance revenue contracts. Offsetting this increase was lower professional services revenues which continue to be adversely impacted due to the adoption of BIRT-based projects by our customers. These BIRT-based projects do not require professional service to the same extent as the Company's traditional designer products.

Sales outside of North America were \$7.9 million or 24% of total revenues for the second quarter of fiscal 2011, compared to \$5.7 million, or 19% of total revenues for the second quarter of fiscal 2010. As a result of fluctuations in foreign currency exchange rates, our total revenues were positively impacted by approximately \$600,000 during the second quarter of fiscal 2011.



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For the first half of fiscal year 2011, the changes and the underlying reasons for those changes in the various components of our revenues were similar to those experienced during the quarter as noted above. Revenues outside of North America increased by 16% from \$12.5 million in the first half of fiscal 2010 to approximately \$14.5 million in the first half of fiscal 2011 while North America revenues showed an increase of 10% or approximately \$4.5 million. The international revenues represented 22% of our total revenues versus 21% in the same period last year. For the year, approximately \$730,000 of the international revenues was attributable to favorable exchange rate fluctuations on revenue transactions denominated in foreign currencies.

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	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
<b>Revenues</b>								
License fees	\$ 12,442	\$ 10,030	\$ 2,412	24%	\$ 24,099	\$ 19,622	\$ 4,477	23%
Services	21,296	20,260	1,036	5%	41,727	39,742	1,985	5%
<b>Total Revenues</b>	<b>\$ 33,738</b>	<b>\$ 30,290</b>	<b>\$ 3,448</b>	<b>11%</b>	<b>\$ 65,826</b>	<b>\$ 59,364</b>	<b>\$ 6,462</b>	<b>11%</b>
<b>% of Revenue</b>								
License fees	37%	33%			37%	33%		
Services	63%	67%			63%	67%		
<b>Total Revenues</b>	<b>100%</b>	<b>100%</b>			<b>100%</b>	<b>100%</b>		

*License fees.* The increase in license revenues for the second quarter of fiscal 2011 over the same period in the prior year was due to improved demand in North America and across International regions. License revenues in North America increased by 14% or approximately \$1.2 million as we continue to experience increased customer demand for our BIRT-based products. We also experienced similar positive trends in Europe and Asia Pacific regions as combined license sales increased 92% or \$1.2 million during the second quarter of fiscal 2011. During the second quarter of fiscal 2011, we completed two license transactions greater than \$1 million and closed transactions greater than \$100,000 with 57 customers. During the same period last year we completed two license transactions greater than \$1 million and closed transactions greater than \$100,000 with 60 customers.

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

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
<b>License Revenues</b>								
North America	\$ 9,960	\$ 8,734	\$ 1,226	14%	\$ 19,707	\$ 15,858	\$ 3,849	24%
Europe	1,342	947	395	42%	2,646	3,018	(372)	(12)%
APAC	1,140	349	791	227%	1,746	746	1,000	134%
<b>Total</b>	<b>\$ 12,442</b>	<b>\$ 10,030</b>	<b>\$ 2,412</b>	<b>24%</b>	<b>\$ 24,099</b>	<b>\$ 19,622</b>	<b>\$ 4,477</b>	<b>23%</b>

% of total revenue 37% 33% 37% 33%

*Services.* Services revenue is comprised of maintenance and support, professional services, and training. The 5% increase in services revenues was driven primarily by improvements in our maintenance revenue stream due to improving license bookings experienced over the past four consecutive quarters. We also experienced slight improvements in our maintenance renewal decline rate. Also, our prior year second quarter services revenues were negatively impacted due to the fact that certain revenue could not be recognized due to the impact of purchase accounting on the acquired Xenos Group maintenance revenue contracts. International service revenues increased during the second quarter of 2011 mainly because we recorded a maintenance transaction in Asia Pacific with a customer who was out of compliance with their agreement and accordingly was required to pay back maintenance. Service revenues were also positively impacted by currency exchange rate fluctuations in Europe. Offsetting these increases was lower professional services revenues, which continue to be adversely impacted mainly due to the adoption of BIRT-based projects by our customers. These BIRT-based projects do not require professional service to the same extent as the Company's traditional designer products.

By region, North America accounted for approximately 74% of the total services revenue in the second quarter of fiscal 2011 while the Europe and Asia Pacific regions accounted for 21% and 5% of the total services revenues, respectively. For the same period last year, North America accounted for approximately 78% of the total services revenue while the Europe and Asia Pacific regions accounted for 18% and 4% of the total services revenues, respectively.



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

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
<b>Services Revenues</b>								
North America	\$ 15,850	\$ 15,861	\$ (11)	%	\$ 31,651	\$ 31,037	\$ 614	2%
Europe	4,368	3,717	651	18%	8,154	7,329	825	11%
APAC	1,078	682	396	58%	1,922	1,376	546	40%
<b>Total Services</b>	<b>\$ 21,296</b>	<b>\$ 20,260</b>	<b>\$ 1,036</b>	<b>5%</b>	<b>\$ 41,727</b>	<b>\$ 39,742</b>	<b>\$ 1,985</b>	<b>5%</b>

% of total revenue 63% 67% 63% 67%

**Costs and Expenses***Cost of license fees*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Cost of license fees	\$ 461	\$ 498	\$ (37)	(7)%	\$ 942	\$ 938	\$ 4	%
% of license revenue	4%	5%			4%	5%		

Cost of license fees consists primarily of product packaging, documentation, production costs and the amortization of purchased technology. The decrease in cost of license fees in absolute dollars for the second quarter and first six months of fiscal 2011, compared to the corresponding period was not significant. We expect our cost of license fees, as a percentage of revenues from license fees, to remain between 5% and 6% of revenues from license fees for the remainder of fiscal 2011.

*Cost of services*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Cost of services	\$ 5,224	\$ 5,099	\$ 125	2%	\$ 10,655	\$ 9,626	\$ 1,029	11%
% of services revenue	25%	25%			26%	24%		

Cost of services consists primarily of personnel and related costs, share-based compensation, facilities costs incurred in providing software maintenance and support, training and consulting services, as well as third-party costs incurred in providing training and consulting services. The increase in cost of services for the second quarter of fiscal 2011, compared to the prior year was primarily driven by higher service revenues in the second quarter of 2011.

For the six months ended June 30, 2011, the increase was due to the timing of the acquisition of Xenos in February 2010, which resulted in five months of expenses in the first half of fiscal 2010 compared with six months of expenses incurred in the first half of fiscal 2011. Bonus and equity compensation increased due to Board authorized acceleration of options and payment of a bonus to the estate of our former senior executive who passed away in December of 2010. In additions, we experienced increased third party consulting fees due to a significant customer migration project in the first quarter of 2011, which placed a higher demand on our professional services partners as we lacked sufficient internal Actuate resources to meet the customer dates. We also experienced increase in expenses related to our compliance group,

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which is an internal organization established to monitor and ensure that our customers remain in full compliance with the provisions of their respective licensing agreements with Actuate. Currently we expect our cost of services expenses as a percentage of total services revenues to be in the range of 24% to 26% of total services revenues for the remainder of fiscal 2011.

**Table of Contents***Sales and marketing*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Sales and marketing	\$ 10,371	\$ 10,177	\$ 194	2%	\$ 21,396	\$ 19,701	\$ 1,695	9%
% of total revenue	31%	33%			33%	33%		

Sales and marketing expenses consist primarily of salaries, commissions, share-based compensation and bonuses earned by sales and marketing personnel, promotional expenses, travel, entertainment and facility costs. Our sales and marketing expense increased compared to the corresponding period in the prior year as a result of higher overall compensation related expenses.

For the six months ended June 30, 2011, the increase was due to the timing of the acquisition of Xenos in February 2010 which resulted in five months of Xenos expenses in the first half of fiscal 2010 compared with six months of expenses incurred in the first half of fiscal 2011. In addition, salaries, benefits, stock-based compensation and employee travel combined to account for approximately \$1.4 million of the increase in the first half of fiscal 2011 expenses. The increase in salaries was due to a 7% increase in our average year-to-date sales and marketing headcount from 152 at the end of the second quarter of 2010 to 162 at the end of the second quarter 2011. Annual merit increases also contributed to higher salaries expenses during the quarter. Marketing program expenses increased by approximately \$240,000 mainly due to the use of onsite vendors for webinars and web marketing for conference sponsorships. We also experienced an increase in recruiting costs during the first six months of fiscal 2011. We currently expect our sales and marketing expenses as a percentage of total revenues to increase for the remainder of fiscal 2011 as we will add new sales headcount to supplement higher sales generating capacity.

*Research and development*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Research and development	\$ 6,269	\$ 6,348	\$ (79)	(1)%	\$ 12,650	\$ 12,270	\$ 380	3%
% of total revenue	19%	21%			19%	21%		

Research and development costs consist primarily of personnel and related costs associated with the development of new products, share-based compensation costs, enhancement of existing products, quality assurance and testing. Our research and development expenses did not change significantly in the three months ended June 30, 2011 as compared to the same period in the prior fiscal year.

Our overall research and development expense increased for the first six months of fiscal 2011 compared to the corresponding period in the prior year due to one additional month of expenses related to Xenos during the first half of fiscal 2011 compared with the same period last year due to the timing of the acquisition. Annual merit increases also contributed to higher salaries expenses during the period. We believe that continued investments in technology and product development are essential for us to remain competitive in the markets we serve, and expect our research and development expenses as a percentage of total revenues to be in the range of 18% to 20% of total revenues for the remainder of fiscal 2011.

*General and administrative*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
General and administrative	\$ 5,304	\$ 7,389	\$ (2,085)	(28)%	\$ 10,738	\$ 14,372	\$ (3,634)	(25)%
% of total revenue	16%	24%			16%	24%		

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General and administrative expenses consist primarily of personnel costs, share-based compensation costs and related costs for finance, human resources, information systems and general management, as well as legal, bad debt and accounting expenses. The decrease in general and administrative expenses in both absolute dollars and as a percentage of total revenues for the second quarter of fiscal 2011 was primarily due to reductions in legal fees resulting from successful settlement of several contract compliance matters

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prior to the end of third quarter fiscal 2010. As a result, litigation and acquisition related expenses decreased by approximately \$2.6 million in the second quarter of fiscal 2011 compared to the same quarter last year. The decrease in legal fees was partially offset by increases in employee compensation due to annual merit increases, management bonuses, and stock-based compensation.

For the six months ended June 30, 2011, we experienced increases and decreases in similar categories of costs as we did during the quarter. In addition to these variations, we also experienced an increase in Board of Director fees due to the addition of a new member and associated finder's fees and one additional month of expenses related to Xenos incurred during the first half of fiscal 2011 compared to the first half of fiscal 2010. We expect our general and administrative expenses as a percentage of total revenues to be in the range of 17% to 20% for the remainder of fiscal 2011.

*Asset impairment*

During the second quarter of fiscal 2011, the Company recorded \$1.7 million of in-process research and development (IPR&D) impairment charges. The Company had previously recorded IPR&D representing the fair value of a project that was underway at Xenos at the time of acquisition. The product underlying this IPR&D item was released on June 28, 2010 and the fair value of this intangible asset was amortized on a straight-line basis over the respective estimated useful life of seven years beginning July 2010. During the second quarter of 2011, the Company deemed that it was necessary to impair this IPR&D due to the fact that changes in circumstances indicated to management that the carrying value of the IPR&D was not recoverable. Based on an analysis of historical sales of the product since its release in the second quarter of fiscal 2010, as well as the calculation of a discounted cash flow analysis projecting expected cash flows through the remaining useful life of the product, it was determined that the IPR&D balance should be impaired down to zero.

*Amortization of other purchased intangibles*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Amortization of other purchased intangibles	\$ 359	\$ 461	\$ (102)	(22)%	\$ 718	\$ 822	\$ (104)	(13)%
% of total revenue	1%	2%			1%	1%		

Amortization expense during the second quarter and the first half of fiscal 2011 was lower than the levels experienced during the same periods in fiscal 2010 as some intangibles related to our prior acquisitions were fully amortized at the end of fiscal 2010. We continue to amortize the intangible assets purchased through the acquisition of Xenos on a straight-line basis over their estimated useful lives of seven years.

*Restructuring charges*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Restructuring	\$ 437	\$ 277	\$ 160	58%	\$ 731	\$ 664	\$ 67	10%
% of total revenue	1%	1%			1%	1%		

During the first quarter of fiscal 2011, the Company implemented restructuring actions that resulted in an aggregate charge of \$294,000 and the elimination of most of its Canadian subsidiary's general and administrative department. Also included in the aggregate charges for the first quarter of 2011 was a \$125,000 idle facilities charge related to the Company's South San Francisco facility.

During the second quarter of fiscal 2011, we implemented a plan to restructure parts of our North America product development and global sales and marketing operations in order to align our cost structure with our current business plan. As a result of the restructuring program, we reduced our global workforce by 26 positions and recorded \$720,000 of restructuring charges related to employee severance arrangements. In addition to these charges, we reversed approximately \$283,000 of a previously accrued severance liability. This severance liability was initially recorded in December 2004 in connection with litigation related to a previous reduction in work force in Europe. A recent risk assessment rendered by management has indicated that the Company maintains adequate legal defenses and further settlement payments are no longer a significant risk.



Accordingly, this liability was reversed at the end of the second quarter of fiscal 2011.

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Historically, restructuring charges have included costs associated with reductions in workforce, exits of idle facilities and disposals of fixed assets. These restructuring charges were based on actual and estimated costs incurred including estimates of sublease income on portions of our idle facilities that we periodically update based on market conditions and in accordance with our restructuring plans. These estimates were impacted by the rules governing the termination of employees, especially those in foreign countries.

*Interest income and other income/(expense), net*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Interest and other income, net	\$ 216	\$ 132	\$ 84	64%	\$ 304	\$ 286	\$ 18	6%
Foreign exchange gain/(loss)	(2,318)	(514)	(1,804)	351%	(2,126)	(1,171)	(955)	82%

Total interest income and other income (expense), net	\$ (2,102)	\$ (382)	\$ (1,720)	450%	\$ (1,822)	\$ (885)	\$ (937)	106%
Interest expense	\$ (233)	\$ (455)	\$ 222	(49)%	\$ (645)	\$ (872)	\$ 227	(26)%

Interest income during the second quarter of fiscal 2011 increased as we liquidated some of our short-term investments in order to pay down the balance on the Credit Facility with Wells Fargo Financial ( WFF ) and realized corresponding investment gains associated with the liquidation of these funds. During the second quarter of 2011, we also experienced currency exchange losses as a result of unfavorable revaluation of net monetary assets held by our Swiss subsidiary as the Swiss Franc strengthened considerably against the Euro, British Pound and the U.S. Dollar. The revaluation of these currency amounts held in Switzerland to Swiss Francs is a required procedure in consolidating and reporting the financial results of our European operations. These losses were partially offset by lower interest expense as we fully paid-down the full outstanding balance on our Credit Facility in early part of May 2011.

For the six month ended June 30, 2011, we experienced increases and decreases in similar categories of costs as we did during the quarter.

*Provision for (benefit from) income taxes*

	Three Months Ended (In thousands)				Six Months Ended (In thousands)			
	June 30,		Variance \$ s	Variance %	June 30,		Variance \$ s	Variance %
	2011	2010			2011	2010		
Provision (benefit from) income taxes	\$ 716	\$ (202)	\$ 918	454%	\$ 1,588	\$ (1,751)	\$ 3,339	191%
% of total revenue	2%	(1)%			2%	(3)%		

For the three months ended June 30, 2011, we recorded an income tax provision of approximately \$716,000, as compared to an income tax benefit of approximately \$202,000 for the same period last year. The increase in the income tax provision for the second quarter of fiscal 2011 as compared to the second quarter of fiscal 2010 is mainly due to higher earnings for the quarter.

For the six months ended June 30, 2011, we recorded an income tax provision of approximately \$1.6 million, as compared to an income tax benefit of \$1.8 million for the same period last year. The increase in the income tax provision for the six months of fiscal 2011 as compared to the six months of fiscal 2010 is due to significantly higher earnings. The tax benefit for the six months of fiscal 2010 is due to a benefit of \$1.6 million recognized during the first quarter for the release of a valuation allowance on Canadian deferred assets and a small domestic loss for the quarter.

During the three months ended June 30, 2011, the Company did not materially change its reserves for uncertain tax positions. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. The Company does not believe it is reasonably possible that its reserve for uncertain tax positions would materially change in the next 12 months.



**Table of Contents****Liquidity and Capital Resources**

	As of June 30, 2011	As of June 30, 2010	Change \$	Change %
<i>(dollars in thousands)</i>				
Cash, cash equivalents and short-term investments	\$ 54,923	\$ 63,600	\$ (8,677)	(14)%
Working capital	\$ 29,627	\$ 31,700	\$ (2,073)	(7)%
Note payable	\$	\$ 40,000	\$ (40,000)	(100)%
Stockholders equity and non-controlling interest	\$ 105,514	\$ 72,727	\$ 32,787	45%

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

**Cash flows from operating activities:** Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their software license updates and product support agreements. Payments from customers for software license updates and product support agreements are generally received near the beginning of the contracts terms, which are generally one year in length. We also generate significant cash from new software license sales and, to a lesser extent, consulting. Our primary uses of cash from operating activities are for personnel related expenditures as well as payments related to taxes and leased facilities. Net cash provided by operating activities decreased in the first six months of fiscal 2011 compared to the same period last year primarily due to lower collections. Days sales outstanding (DSO) which is calculated based on revenue for the most recent quarter and accounts receivable as of the balance sheet date increased by 6 days from 61 days at June 30, 2010 to 67 days at June 30, 2011. Increased sales and higher billings resulted in a 23% increase in the receivable balance at the end of the second quarter of fiscal 2011 compared with the balance at the end of the second quarter of fiscal 2010. This increase in receivables was the primary driver for the lower cash flows generated from operations. Another significant factor contributing to lower operating cashflows was an increase in income tax payments resulting from lower available R&D tax credits in fiscal 2011. Partially offsetting this increase was a reduction in cash outflows related to other accrued liabilities. These cash outflows relating to other accrued liabilities were lower in the first half of fiscal 2011 compared to the corresponding period last year due to lower legal fees, as the Company successfully settled several large contract compliance matters in the third quarter of fiscal 2010.

The primary uses of cash from operations consist of salaries and benefits, commissions and bonuses paid to our employees. We pay our employees on a semi-monthly basis and we generally pay our vendors within one month from receiving an invoice for services rendered. We are also contractually committed to pay rent and facility related charges in support of our worldwide operations. As of June 30, 2011, we remained contractually committed to \$6 million in net operating lease obligations related to our worldwide facilities. The majority of these commitments are due within the next three years.

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

**Cash flows from investing activities:** The changes in cash flows from investing activities primarily relate to acquisitions and the timing of purchases, maturities and sales of our investments in marketable securities. We also use cash to invest in capital and other assets to support our growth. During the quarter, we liquidated a large portion of our short-term investments in order to fully pay down the outstanding balance on our revolving line of credit with WFF. As a result of this liquidation, cash provided from investing activities for the three months ended June 30, 2011 increased to approximately \$37.1 million. For the same period in fiscal 2010, cash used totaled \$30.7 million. This was mainly due to the acquisition of Xenos in February 2010 which resulted in a cash payment of approximately \$27.3 million. The remaining increase in cash provided primarily relates to the timing of purchases and maturities of marketable securities.

**Cash flows from financing activities:** Cash used in financing activities was approximately \$34.4 million for the six months ended June 30, 2011 compared to \$3.4 million provided by financing activities during the same period in fiscal 2010. This increase in cash used in fiscal 2011 was driven primarily by the full pay down of the outstanding balance on our revolving line of credit with WFF, compared with \$10 million in borrowing last year used to partially fund the acquisition of Xenos in February 2010. The cash used to pay down the Credit Facility in the first half of fiscal 2011 was partially offset by higher proceeds from exercise of employee stock options when compared to the first half of fiscal 2010. Finally, during the first half of fiscal 2010, we used approximately \$10 million to repurchase 2,042,612 shares of Actuate stock whereas we did not participate in a similar program during the first half of fiscal 2011.



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We hold our cash, cash equivalents and investments primarily in the United States, Switzerland, and Singapore. As of June 30, 2011, we held an aggregate of approximately \$29.1 million in cash, cash equivalents and investments in North America and an aggregate of \$25.8 million in foreign accounts. If these funds currently held by our foreign subsidiaries are needed for operations in the U.S., we could be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

We believe that our current cash balances, funds available under our Credit Facility, and cash generated from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. Thereafter, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may find it necessary to sell additional equity, or obtain additional credit facilities. The sale of additional equity could result in additional dilution to our current stockholders. A portion of our cash may be used to acquire or invest in complementary businesses, including the acquisition of the minority interest in our 88% owned subsidiary in Japan, or complementary products or to obtain the right to use complementary technologies.

**Contractual Obligations and Commercial Commitments****General**

We are engaged in certain legal actions arising in the ordinary course of business. Although there can be no assurance as to the outcome of such litigation, we believe we have adequate legal defenses and we believe that the ultimate outcome of any of these actions will not have a material effect on our consolidated financial position or results of operations. However, expenses associated with certain legal actions could result in increased operating expenses that may adversely impact the Company's future operating results and cashflows.

In early November of 2008, the Company entered into a revolving Credit Agreement with Wells Fargo Foothill and secured a revolving line of credit in the principal amount of up to \$50 million. During the fourth quarter of fiscal 2008, the Company used \$30 million of its cash along with \$30 million of funds available through this Credit Facility to complete a \$60 million common stock buyback. During the first quarter of 2010, the Company borrowed an additional \$10 million of funds available through this Credit Facility to complete the acquisition of Xenos, which was completed on February 1, 2010. There are no minimum pay-down requirements under the terms of this Credit Facility so long as the Company remains in compliance with the terms of the Credit Agreement. Total costs associated with the facility, including legal and closing fees, amounted to approximately \$1.1 million. Of these total costs, approximately \$1 million was paid as of June 30, 2011. The remaining balance is comprised of a commitment fee totaling \$125,000 that is due and payable on the third anniversary of the date of the Credit Agreement, which will be in November 2011. These costs are being capitalized and amortized over four years in the Company's Consolidated Balance Sheet as current assets if amortized within one year or non-current assets if amortized beyond one year. The Credit Agreement is for a period of four years and is scheduled to expire on November 3, 2012.

In May 2011 the company paid down the outstanding balance on its revolving line of credit. The Company used \$40 million in cash and short-term investments in order to pay down this outstanding debt. As of June 30, 2011, there was no balance owed on this Credit Facility and the balance available under the revolving Credit Facility was approximately \$50 million. Interest is based on a floating rate plus an applicable margin based on the outstanding balance of the amount drawn under the Credit Agreement. The floating rate is determined at the Company's election and may either be (i) London Interbank Offered Rate ( LIBOR ) or (ii) the greater of the Federal Funds Rate plus applicable margin and the Prime Rate. If the Company's usage of the credit line exceeds 80% of its trailing four quarters of recurring maintenance revenue, or if the sum of available funds under the Credit Agreement plus available cash is less than \$10 million, the Company is required to meet certain minimum income targets and be subject to a limit on annual capital expenditures. As of June 30, 2011, the Company was able to meet the 80% test as well as the \$10 million minimum cash threshold and was therefore not subject to the income or the capital expenditures covenants. The Company was in compliance with these covenants at June 30, 2011. The Company is required to make interest payments on any outstanding balances and pay an unused commitment fee on any unused portion of the credit line on a monthly basis.

The following table represents costs related to our Credit Facility with Wells Fargo Financial ( WFF ) (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Interest expense	\$ 115	\$ 333	\$ 441	\$ 646
Amortization of debt issuance costs	72	71	144	143
Unused line fees	45	13	58	30

\$ 232      \$ 417      \$ 643      \$ 819

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The Credit Agreement contains covenants, which, among other things, impose certain limitations with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. In the event the Company does not meet the requirements specified above, a Triggering Event will be deemed to have occurred and the Company would be required to maintain the two financial covenants listed below:

achieve income before interest and taxes, measured on a quarter-end basis, of at least the required amount set forth per the Credit Agreement,

limit the amount of capital expenditures to an amount not exceeding that set forth per the Credit Agreement.

The Company's indebtedness under the Credit Agreement is secured by a lien on (i) substantially all of its assets and the assets of Actuate International Corporation and (ii) by a pledge of all of its stock and a portion of the stock of each of its subsidiaries.

**Operating Lease Commitments**

On September 1, 2007, the Company entered into a five year sublease agreement with a third party for approximately 83,000 square feet of office space in the Bridgepointe Campus in San Mateo, California. This lease is operating in nature, commenced on August 1, 2007 and ends on July 31, 2012. In addition, the lease provided for approximately nine months of free rent (rent holiday) and approximately \$600,000 in landlord incentives applied by Actuate towards construction of improvements. As a result, the Company straight-lined its rent expense and recorded a deferred rent liability on its consolidated balance sheet. At June 30, 2011, the deferred rent liability balance totaled approximately \$430,000 and this balance declines through 2012 when contractual cash payments exceed the straight-line lease expense. Of this total deferred rent liability balance, approximately \$394,000 was classified under the current accrued liabilities section of our consolidated balance sheet with the remaining portion of approximately \$36,000 classified under other long term liabilities section of our consolidated balance sheet at June 30, 2011. The incentives were applied to leasehold improvements completed during the fourth quarter of fiscal 2007. Actuate also had been leasing an additional 50,400 square feet in one facility in South San Francisco, California. The lease on this facility expired in May 2011. This facility was entirely subleased through the end of its leased life. Actuate also leases smaller office facilities in various locations in the United States and abroad. All facilities are leased under operating leases. Total rent expense was approximately \$862,000 and approximately \$1.7 million in the second quarter and the first half of fiscal 2011, respectively, and approximately \$874,000 and approximately \$1.8 million in the second quarter and the first half of fiscal 2010, respectively.

The following table summarizes our contractual obligations as of June 30, 2011 (in thousands):

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 3 years</b>	<b>3 5 years</b>	<b>Thereafter</b>
<b>Obligations:</b>					
Operating leases (1)	\$ 6,009	\$ 3,006	\$ 2,512	\$ 491	\$
Interest and loan obligations (2)	466	379	87		
Obligations for uncertain tax positions (3)	743		743		
<b>Total</b>	<b>\$ 7,218</b>	<b>\$ 3,385</b>	<b>\$ 3,342</b>	<b>\$ 491</b>	<b>\$</b>

- (1) Our future contractual obligations include minimum lease payments under operating leases at June 30, 2011.
- (2) Includes estimated interest and commitment fees related to the revolving line of Credit Agreement with Wells Fargo Foothill.
- (3) Represents the tax liability associated with uncertain tax positions. See discussion on obligations for uncertain tax positions in Note 12 of our Notes to the Consolidated Financial Statements of our Form 10-K for fiscal year 2010 filed with the SEC on March 11, 2011.



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

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

*Foreign Currency Exchange Risk.* During the first six months of fiscal years 2011 and 2010 we derived 22% and 21%, respectively, of our total revenues from sales outside of North America. We face exposure to market risk on these receivables with respect to fluctuations in the relative value of currencies. Our international revenues and expenses are denominated in foreign currencies, principally the Euro and the British Pound Sterling. With exception of Cayman Islands, the functional currency of each of our foreign subsidiaries is the local currency. We are also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, transaction gains and losses may vary from expectations and adversely impact overall expected profitability. Our realized losses due to foreign exchange rate fluctuations was approximately \$2.1 million during the first half of fiscal 2011 compared to losses of approximately \$1.2 million for the first half of fiscal 2010. During the first half of fiscal 2011, exchange rate fluctuations on foreign revenue transactions positively impacted our total revenues by approximately \$730,000 when compared to the same period in the prior year while expenses were negatively impacted by approximately \$680,000.

We performed a sensitivity analysis on the net monetary accounts subject to revaluation that are held primarily by our international subsidiaries. We used the following steps to determine the approximate impact of currency exchange rate fluctuations:

Identified material net monetary assets held in non-functional currencies. These primarily consist of the Euro, British Pound, and the U.S. Dollar-based net assets held by our international subsidiaries.

Applied hypothetical changes in exchange rates to these net monetary balances held by each subsidiary as identified above. The result was a hypothetical revaluation gain or (loss) in the subsidiary's functional currency.

We then translated the revaluation result as described above to U.S. Dollars using the latest quarter average exchange rate. This resulted in hypothetical revaluation gains or (losses) before income taxes. These hypothetical results are summarized in the table below as of June 30, 2011:

Annual change in currency exchange (in thousands)					
-15%	-10%	-5%	+5%	+10%	+15%
\$(3,930)	\$(2,620)	\$(1,310)	\$1,310	\$2,620	\$3,930

*Interest Rate Risk.* The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality debt securities. Due to the nature of our investments, we believe that there is limited risk exposure.

*Credit Risk.* Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities, and trade accounts receivable. We have policies that limit investments in investment grade securities and the amount of credit exposure to any one issuer.

We sell primarily to customers in the financial services industry, predominantly in the United States and Europe. Accordingly, unfavorable economic conditions adversely impacting the financial services industry has had a material adverse effect on the Company's business, financial condition and results of operations. For example, the financial services industry has experienced and may continue to experience cyclical fluctuations in profitability, which may affect timing of, or actual purchases of, our products which would have a material adverse effect on the our business, financial condition and results of operations. No single customer has accounted for more than 10% of total sales in any period presented.

We perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses. We do not require collateral or other security to support customer receivables. Our credit risk is also mitigated because our customer base is diversified by geography. We generally do not use foreign exchange contracts to hedge the risk in receivables denominated in foreign currencies. We do not hold or issue derivative financial instruments for trading or speculative purposes.

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

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**ITEM 4. CONTROLS AND PROCEDURES**

**a) Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by the report as required by Rule 13a-15(b), as adopted by the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (Exchange Act). Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on the evaluation, disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate. The Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls were not effective as to the material weakness discussed in our Form 10-K for the year ended December 31, 2010. However, the company plans to remediate by the end of fiscal 2011 the material weakness identified in fiscal year 2010.

**(b) Changes in Internal Control over Financial Reporting in our Last Fiscal Quarter**

During the three months ended June 30, 2011, in response to the material weakness identified in Form 10-K as filed with the Securities and Exchange Commission on March 11, 2011, we implemented the following control measures:

Hired an additional tax professional to enhance the review of the tax provision calculations

Identified unusual items during the quarter for further review and analysis

There were no other significant changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

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

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**Item 1A. Risk Factors**

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

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

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

Demand for its products;

The size and timing of significant orders for its products;

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

Competition from products that are directly competitive with its products;

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

The management, performance and expansion of its international operations;

Foreign currency exchange rate fluctuations;

Customers' desire to consolidate their purchases of Rich Information Applications, Performance Management, Business Intelligence or Print Stream 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;

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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 cost, outcome or publicity surrounding any pending or threatened lawsuits;

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

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

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

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Budgeting cycles of its customers;

Failure to successfully manage acquisitions and integrate acquired companies;

Defects in products and other product quality problems;

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

Changes in the market segments and types of customers where it focuses sales and marketing efforts;

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

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

Potential impairments of goodwill, intangibles and other investments.

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

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

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

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

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

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

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

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

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

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

Based upon all of the factors described above, the Company has a limited ability to forecast the amount and mix of future revenues and expenses and, the Company's actual operating results may from time to time fall below its estimates or the expectations of public market analysts and investors which is likely to cause the price of the Company's common stock to decline.

### ***OUR DEBT COVENANTS IN OUR CREDIT AGREEMENT RESTRICT OUR FINANCIAL AND OPERATIONAL FLEXIBILITY.***

Our Credit Agreement contains a number of financial covenants, which, among other things, may require us to maintain specified financial ratios and impose certain limitations on us with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. Our ability to meet the financial ratios can be affected by operating performance or other events beyond our control, and we cannot assure you that we will meet those ratios and failure to do so may cause an event of default under the Credit Agreement. Our indebtedness under the Credit Agreement is secured by a lien on substantially all of our assets and of our subsidiaries, by a pledge of our operating and license subsidiaries' stock and by a guarantee of our subsidiaries. If the amounts outstanding under the Credit Agreement were accelerated due to an event of default, the lenders could proceed against such available collateral by forcing the sales of these assets.

### ***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 its ability to expand its market, enhance its existing products, introduce new products on a timely basis and expand its distribution channels and professional services organizations. In order to achieve these objectives, the Company had pursued and will continue to pursue acquisitions of other companies. On February 1, 2010, the Company completed a tender offer for Xenos Group Inc. ( "Xenos" ).

Generally, acquisitions (including that of Xenos) involve numerous risks, including the following:

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

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

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

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

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

Difficulties in retaining key relationships with customers, partners and suppliers of the acquired company specifically in the case of Xenos, the loss of recurring revenue from multiple subsidiaries of one large multi-national organization or the ability to sell and support certain third party software.

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



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

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

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

The potential loss of key employees of the acquired company.

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

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

Third parties may claim that the Company's current or future products infringe their intellectual property rights. The Company has been subject to infringement claims in the past and it expects that companies in the Business Intelligence, Rich Internet Applications or Performance Management software market will increasingly be subject to infringement claims as the number of products and/or competitors in its industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming to defend, result in significant litigation and other expenses, divert management's attention and resources, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all. A successful claim of product infringement against the Company and its failure or inability to license the infringed or similar technology could materially harm the Company's business, operating results and financial condition.

***COMPUTER HACKERS MAY DAMAGE OUR SYSTEMS, SERVICES AND PRODUCTS, AND BREACHES OF DATA PROTECTION COULD IMPACT OUR.***

Computer programmers and hackers may be able to penetrate our network security and misappropriate our confidential information or that of third parties, create system disruptions or cause interruptions or shutdowns of our internal systems and services. If successful, any of these events could damage our computer systems or those of our customers and could disrupt or prevent us from providing timely maintenance and support for our software platform. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and the efforts to address these problems could result in interruptions, delays, cessation of service and loss of existing or potential customers and may impede our sales, manufacturing, distribution and other critical functions.

In the course of our regular business operations and providing maintenance and support services to our customers, we process and transmit proprietary information and sensitive or confidential data, including personal information of employees, customers and others. Breaches in security could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, which could result in potential regulatory actions, litigation and potential liability for us, as well as the loss of existing or potential customers and damage to our brand and reputation.

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

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

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

The Company's total revenues derived from sales outside North America were 22%, 21% and 23% for the six months of fiscal years 2011, 2010 and 2009, respectively. Its ability to achieve revenue growth in the future will depend in large part on its success in increasing revenues from international sales. The Company intends to continue to invest significant resources to expand its sales and support operations outside North America and to potentially enter additional international markets. In order to expand international sales, the Company must establish additional foreign operations, expand its international channel management and support organizations, hire additional personnel, recruit additional international resellers and increase the productivity of existing international resellers. The Company intends to continue to shift its focus from direct sales to indirect sales in certain of its international markets in 2011. If it is not successful in expanding international operations in a timely and cost-effective manner, the Company's business, operating results and financial condition could be materially harmed.

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

To date, the Company has sold its products principally through its direct sales force, as well as through indirect sales channels, such as its OEMs, resellers and systems integrators. The Company's revenues from license fees resulting from sales through indirect channel partners were approximately 35%, 45%, and 31% of total revenues from license fees for the first six months of fiscal years 2011, 2010 and 2009, respectively. The Company's ability to achieve significant revenue growth in the future will depend in large part on the success of its sales force in further establishing and maintaining relationships with indirect channel partners. In particular, a significant element of the Company's strategy is to embed its technology in products offered by OEMs for resale or as a hosted application to such OEMs' customers and end-users. Xenos Group's business in the United Kingdom relies on the sale and support of third party software as a significant component of its business. The Company also intends to establish and expand its relationships with resellers and systems integrators so that such resellers and systems integrators will increasingly recommend its products to their clients. The Company's future success will depend on the ability of its indirect channel partners to sell and support its products. If the sales and implementation cycles of its indirect channel partners are lengthy or variable or its OEMs experience difficulties embedding the Company's technology into their products, or if it fails to train the sales and customer support personnel of such indirect channel partners in a timely or effective fashion, the Company's business, operating results and financial condition would be materially harmed.

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

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

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

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

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

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

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

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

Many of the Company's current and potential competitors have significantly greater financial, technical, marketing and other resources than it does. These competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sales of their products than the Company. Also, most current and potential competitors have greater name recognition and the ability to leverage a significant installed customer base. These companies have released and can continue to release competing Business Intelligence, Performance Management, Print Stream and Rich Information Applications software products or significantly increase the functionality of their existing software products, either of which could result in a loss of market share for the Company. The Company expects additional competition as other established and emerging companies enter the Business Intelligence, Performance Management, Print Stream and Rich Internet Applications software market and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, longer sales cycles and loss of market share, any of which would harm the Company's business, operating results and financial condition.

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

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***IF THE MARKET FOR BUSINESS INTELLIGENCE, RICH INTERNET APPLICATIONS, PRINT STREAM AND PERFORMANCE MANAGEMENT SOFTWARE DOES NOT GROW AS THE COMPANY EXPECTS, ITS BUSINESS WOULD BE SERIOUSLY HARMED.***

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

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

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

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

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

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***RENEWAL OF MAINTENANCE SERVICES ON OUR OLDER SOFTWARE SALES MAY DECLINE***

The Company has historically experienced a high maintenance retention rate across its various product lines. As certain of the Company's products age, these retention rates may not be sustained unless the Company is successful in providing its customers with more advanced functionality and the levels of support that they require.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), the Company's management is required to report on, and its independent auditors are required to attest to, the effectiveness of the Company's internal controls over financial reporting on an annual basis. The Company's assessment, testing and evaluation of the design and operating effectiveness of its internal control over financial reporting are ongoing. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010, and this assessment identified a material weakness in our internal control over financial reporting related to our income tax provision. This assessment identified ineffective execution of tax provision review controls because of lack of resources with expertise in non-recurring transactions. This material weakness resulted in a material error in our 2010 income tax provision, which was corrected prior to issuance of the Company's 2010 consolidated financial statements.

During the three months ended June 30, 2011, in response to the material weakness identified in Form 10-K as filed with the Securities and Exchange Commission on March 11, 2011, we implemented the following control measures:

Hired an additional tax professional to enhance the review of the tax provision calculations

Identified unusual items during the quarter for further review and analysis

There were no other significant changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management believes these measures have had a positive effect on the Company's internal control over financial reporting since implementation, and anticipates that these added controls will continue to have a positive impact on the Company's internal control over financial reporting in future periods.

If in future periods the Company concludes that its internal control over financial reporting is not effective, it may be required to change its internal control over financial reporting to remediate deficiencies. The Company cannot predict the outcome of its testing in future periods as risks exist that present controls may not be effective in the future periods and consequently investors may lose confidence in the reliability of the Company's financial statements, causing the Company's stock price to decline.

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

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

In addition, any acquisitions made by the Company will also put a significant strain on its management, information systems and resources. Any expansion of the Company's international operations will lead to increased financial and administrative demands associated with managing its international operations and managing an increasing number of relationships with foreign partners and customers and expanded treasury

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functions to manage foreign currency risks, all of which will require the Company to incur additional cost to implement necessary changes to maintain effective internal controls over financial reporting.

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

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

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

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

The Company believes that its future success will depend in large part on the success of new products and enhancements to its products that it makes generally available. Prior to the release of any new products or enhancements, the products must undergo a long development and testing period. To date, the development and testing of new products and enhancements have taken longer than expected. In the event the development and testing of new products and enhancements continue to take longer than expected, the release of new products and enhancements will be delayed. If the Company fails to release new products and enhancements in a timely manner, its business, operating results and financial condition would be harmed. In addition, if such new products and enhancements do not achieve market acceptance, the Company's business, operating results and financial condition would be harmed.

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

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

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

***IF SECURITY MEASURES REGARDING OUR BIRT ONDEMAND AND PERFORMANCE MANAGEMENT ONDEMAND SERVICES ARE BREACHED AND UNAUTHORIZED ACCESS IS OBTAINED TO A CUSTOMER'S DATA OR OUR DATA OR OUR INFORMATION TECHNOLOGY SYSTEMS, WE MAY INCUR SIGNIFICANT LEGAL AND FINANCIAL EXPOSURE AND LIABILITIES.***

Our BIRT onDemand and Performance Management onDemand services involve the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or



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otherwise, during transfer of data to additional data centers or at any time, and result in someone obtaining unauthorized access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could lead to legal liability.

***FROM TIME TO TIME, WE MAY BE INVOLVED IN LEGAL PROCEEDINGS ABOUT WHICH WE ARE UNABLE TO ASSESS OUR EXPOSURE AND WHICH COULD BECOME SIGNIFICANT LIABILITIES UPON JUDGMENT.***

We are involved in legal proceedings from time to time. Companies in our industry have been subject to claims related to patent infringement, as well as contract and employment-related claims. At times, including now, we are also plaintiffs in litigation involving the Company's intellectual property. We may not be able to accurately assess risk related to these suits including expenses and other potential liabilities.

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

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

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

Difficulty of managing an organization spread across many countries;

Multiple and conflicting tax laws and regulations;

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Costs of localizing products for foreign countries;

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

Trade laws and business practices favoring local competition;

Dependence on local vendors;

Increasing dependence on resellers in certain geographies;

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

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

Longer sales cycles;

Import and export restrictions and tariffs;

Difficulties in staffing and managing foreign operations;

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

Greater difficulty or delay in accounts receivable collection; and

Foreign currency exchange rate fluctuations.

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

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

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

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

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

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

Software revenue recognition;

Accounting for income taxes;

Accounting for business combinations and related goodwill;

Accounting for stock issued to employees; and

Assessing fair value of financial and non-financial assets.

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

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

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

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

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

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

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

***THE COMPANY MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS.***

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

***THE PROTECTION OF OUR PROPRIETARY RIGHTS MAY BE INADEQUATE.***

The Company has a small number of issued and pending U.S. patents expiring at varying times ranging from 2015 to 2024. The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary technology. For example, the Company licenses its software pursuant to click-wrap or signed license agreements that impose certain restrictions on licensees' ability to utilize the software. In addition, the Company seeks to avoid disclosure of its intellectual property, including by requiring those persons with access to its proprietary information to execute confidentiality agreements with the Company and by restricting access to its source code. The Company takes precautions to protect our software, certain documentation, and other written materials under trade secret and copyright laws, which afford only limited protection.

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

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***IF SECURITIES OR INDUSTRY ANALYSTS DO NOT PUBLISH RESEARCH OR REPORTS OR PUBLISH UNFAVORABLE RESEARCH OR REPORTS ABOUT OUR BUSINESS, OUR STOCK PRICE AND TRADING VOLUME COULD DECLINE.***

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us adversely change their recommendation regarding our stock, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, interest in our stock could decrease, which could cause our stock price or trading volume to decline.

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

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

Actual or anticipated fluctuations in its operating results;

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

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

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

Developments in ongoing or threatened litigation;

Announcements of technological innovations;

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

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

Developments with respect to copyrights or proprietary rights;

Price and volume fluctuations in the stock market;

Changes in corporate purchasing of Business Intelligence, Rich Information Applications and Performance Management software;

Adoption of new accounting standards affecting the software industry; and

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Changes in financial estimates by securities analysts.

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

***WE CURRENTLY DO NOT INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK, AND CONSEQUENTLY, YOUR ONLY OPPORTUNITY TO ACHIEVE A RETURN ON YOUR INVESTMENT IS IF THE PRICE OF OUR COMMON STOCK APPRECIATES AND YOU SELL YOUR SHARES AT A PRICE ABOVE YOUR COST.***

We currently do not intend to declare or pay dividends on shares of our common stock in the foreseeable future. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a price above your cost. There is no guarantee that the price of our common stock will ever exceed the price that you pay. Investors seeking cash dividends should not purchase our common stock.

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

The Company is taxable principally in the United States, Canada and certain jurisdictions in Europe and Asia/Pacific. All of these jurisdictions have in the past and may in the future make changes to their corporate income tax laws and/or corporate income tax rates, which could increase or decrease the Company's future income tax provision. While the Company believes that all material income tax liabilities are reflected properly in its Consolidated Balance Sheet, it has no assurance that it will prevail in all cases in the event the taxing authorities disagree with its interpretations of the tax law. Future levels of research and development spending will impact the Company's entitlement to related tax credits, which generally lower its effective income tax rate. Future effective income tax rates could be adversely affected if tax laws are enacted that are targeted to eliminate the benefits of the Company's tax structure and if its earnings are lower than anticipated in jurisdictions where the Company has statutory tax rates lower than tax rates in the United States or other higher tax jurisdictions.

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

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

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

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

***CATASTROPHIC EVENTS MAY DISRUPT OUR BUSINESS.***

We rely on our network infrastructure and enterprise applications, internal technology systems and our Website for our development, marketing, operational, support, hosted services and sales activities. A disruption, infiltration or failure of these systems in the event of a major earthquake, fire, power loss, telecommunications failure, software or hardware malfunctions, cyber attack, war, terrorist attack, or other catastrophic event could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data and could prevent us from fulfilling our customers' orders. Our corporate headquarters, a significant portion of our research and development activities, certain of our data centers, and certain other critical business operations are located in the San Francisco Bay Area, which is near major earthquake faults. We have developed certain disaster recovery plans and certain backup systems to reduce the potentially adverse effect of such events, but a catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected.

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

At our Annual Meeting of Stockholders held on May 25, 2011, our stockholders approved the following items:

- 1.

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Election of Directors: Our shareholders re-elected the following seven (7) directors to each serve a one-year term expiring on the date of the 2012 annual meeting of shareholders or until his or her successor has been duly chosen and qualified.

	For	Withheld	Broker Non-Votes
Peter I. Cittadini	32,039,113	1,161,107	8,359,998
Arthur C. Patterson	32,041,761	1,158,459	8,359,998
Kenneth E. Marshall	27,008,568	6,191,652	8,359,998
Raymond L. Ocampo Jr.	32,251,666	948,554	8,359,998
Timothy B. Yeaton	32,385,498	814,722	8,359,998
Nicolas C. Nierenberg	32,036,318	1,163,902	8,359,998
Steven D. Whiteman	26,743,212	6,457,008	8,359,998



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2. Advisory Vote on Executive Compensation Matters (Say on Pay): Our shareholders approved the say on pay proposal.

For	Against	Abstain	Broker Non-Votes
32,380,825	742,981	76,414	8,359,998

3. Advisory Vote on the Frequency of Say on Pay Votes: Our shareholders approved annual as the frequency of say on pay votes.

1 Year	2 Years	3 Years	Abstain	Broker Non-Votes
30,502,891	151,123	2,495,492	50,714	8,359,998

4. Ratification of Appointment of Independent Registered Public Accounting Firm: Our shareholders ratified the selection of KPMG as our independent auditors for the year ended December 31, 2011.

For	Against	Abstain
41,237,541	198,538	124,139

**Item 6. Exhibits**

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
  - 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
  - 32.1 Section 1350 Certifications
- 101 The following materials from the Quarterly Report on Form 10-Q of Actuate Corporation for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statement of Cash Flows, and (iv) Notes to Consolidated Financial Statements\*.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended; are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended; and otherwise are not subject to liability under these sections.

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**Signature**

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

Actuate Corporation  
(Registrant)

Dated: August 5, 2011

By: */s/* DANIEL A. GAUDREAU  
**Daniel A. Gaudreau**  
**Senior Vice President,**  
**Operations and Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**