

ACTUATE CORP
Form 10-Q
May 06, 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 March 31, 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.

Title of Class	Outstanding as of March 31, 2011
Common Stock, par value \$.001 per share	46,007,097

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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)**

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,789	\$ 33,269
Short-term investments	45,113	46,055
Accounts receivable, net of allowances of \$556 and \$615 at March 31, 2011 and December 31, 2010, respectively	30,191	28,642
Other current assets	6,610	5,845
Total current assets	119,703	113,811
Property and equipment, net	2,932	3,126
Goodwill	46,424	46,424
Purchased intangibles	14,859	15,492
Non-current deferred tax assets	15,436	15,336
Other assets	1,397	1,442
	\$ 200,751	\$ 195,631
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,713	\$ 1,589
Current portion of restructuring liabilities	874	1,285
Accrued compensation	5,461	5,950
Other accrued liabilities	5,776	5,051
Income taxes payable	784	2,030
Deferred revenue	46,702	44,600
Total current liabilities	61,310	60,505
Long-term liabilities:		
Note payable	40,000	40,000
Other liabilities	172	268
Long-term deferred revenue	1,305	1,347
Long-term income taxes payable	853	889
Total long-term liabilities	42,330	42,504
Commitments and contingencies (Note 8)		

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Non-controlling interest in subsidiary	690	693
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 81,158,314 and 80,764,172 shares, respectively; outstanding 46,007,097 and 45,612,955 shares, respectively	46	46
Additional paid-in capital	194,384	192,048
Treasury stock, at cost; 35,151,217 and 35,151,217 shares, respectively	(137,335)	(137,335)
Accumulated other comprehensive income	1,677	1,200
Retained earnings	37,649	35,970
 Total stockholders' equity	 96,421	 91,929
	 \$ 200,751	 \$ 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 INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenues:		
License fees	\$ 11,657	\$ 9,592
Services	20,431	19,482
Total revenues	32,088	29,074
Costs and expenses:		
Cost of license fees	481	440
Cost of services	5,431	4,527
Sales and marketing	11,025	9,524
Research and development	6,381	5,922
General and administrative	5,434	6,983
Amortization of purchased intangibles	359	361
Restructuring charges	294	387
Total costs and expenses	29,405	28,144
Income from operations	2,683	930
Interest income and other income/(expense), net	280	(503)
Interest expense	(412)	(417)
Income before provision for income taxes	2,551	10
Provision for (benefit from) income taxes	872	(1,549)
Net income	\$ 1,679	\$ 1,559
Basic net income per share	\$ 0.04	\$ 0.03
Shares used in basic net income per share calculation	45,868	45,397
Diluted net income per share	\$ 0.03	\$ 0.03
Shares used in diluted net income per share calculation	50,262	50,214

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

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

	Three Months Ended March 31,	
	2011	2010
Operating activities		
Net income	\$ 1,679	\$ 1,559
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation expense related to stock options and employee stock purchase	1,219	1,444
Excess tax benefits from stock-based compensation	(94)	(409)
Amortization of other purchased intangibles	633	599
Amortization of debt issuance cost	72	71
Depreciation	516	500
Unrealized loss on Auction Rate Securities (ARS)		40
Gain on fair value of put option		(53)
Accretion of (premium) discount on short-term debt securities	166	(6)
Change in valuation allowance on deferred tax assets	54	(1,571)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Accounts receivable, net	(1,549)	15,184
Other current assets	(592)	2,626
Accounts payable	124	(1,526)
Accrued compensation	(489)	(1,093)
Other accrued liabilities	725	(2,555)
Deferred tax assets, net of liabilities	(159)	168
Income taxes payable/receivable	(1,358)	(270)
Other liabilities	(96)	(86)
Restructuring liabilities	(437)	(726)
Deferred revenue	2,060	(2,456)
 Net cash provided by operating activities	 2,474	 11,440
Investing activities		
Purchases of property and equipment	(322)	(265)
Proceeds from maturity of investments	15,111	4,618
Purchases of investments	(14,333)	(11,924)
Acquisition of Xenos Group Inc., net of cash acquired		(27,343)
Net change in other non-current assets	(2)	(213)
 Net cash provided by (used in) investing activities	 454	 (35,127)
Financing activities		
Proceeds from the credit facility, net of issuance cost		9,986
Excess tax benefits from exercise of stock options	94	409
Proceeds from issuance of common stock	1,023	2,479
Stock repurchases		(4,999)
 Net cash provided by financing activities	 1,117	 7,875
Effect of exchange rates on cash and cash equivalents	475	(61)

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Net increase/(decrease) in cash and cash equivalents	4,520	(15,873)
Cash and cash equivalents at the beginning of the period	33,269	53,173
Cash and cash equivalents at the end of the period	\$ 37,789	\$ 37,300

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, www.birt-exchange.org and 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 March 31, 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. Through March 31, 2011, the operating performance and liquidity requirements of Actuate Japan had not been material to the Company s results of operations or financial condition.

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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 Income in connection with stock options, restricted stock units and the Employee Stock Purchase Plan (ESPP) for three months ended March 31, 2011 and 2010 were as follows (in thousands):

	Three Months Ended	
	March 31,	
	2011	2010
Stock options	\$ 1,406	\$ 1,240
Restricted stock units	185	67
ESPP	224	137
Total share-based compensation	\$ 1,815	\$ 1,444
Income tax benefit	\$ 538	\$ 477

Included in the total share-based compensation for the first quarter of fiscal 2011 is approximately \$596,000 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 three months ended March 31, 2011 and 2010 are as follows:

	Options		ESPP	
	Three Months Ended		Three Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2011	2010	2011	2010
Volatility	54.28%	54.73%	42.34%	40.15%
Expected term (years)	5.69	5.66	1.25	1.25
Risk free interest rate	2.21%	2.25%	0.27%	0.35%
Expected dividend yield	0%	0%	0%	0%

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 March 31, 2011, a total of 393,750 RSUs were issued and granted to the Company's senior management and non-employee Board of Directors. As of March 31, 2011, a total of 393,750 and 369,749 RSUs were granted and outstanding, respectively, 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 commitment as of the date of modification of these options, the instruments were subject to the requirements of the Generally Accepted Accounting Principles (GAAP) literature other than the authoritative guidance on equity-based compensation to determine their classification and accounting. Based on this alternate literature, including the authoritative guidance on Accounting for Derivative Instruments and Hedging Activities and the authoritative guidance on Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, among others, these accelerated options require liability accounting treatment rather than equity accounting treatment. As such, we determine the revised fair value of the options at the end of each quarterly reporting period and recognize any resulting gains or losses at that time in the Statement of Income. We will continue to mark-to-market these options until such time that they have been fully exercised.

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

	Three Months Ended	
	March 31,	
	2011	2010
Weighted-average common shares outstanding	45,868	45,397
Weighted-average dilutive common equivalent shares under the treasury stock method	4,394	4,817
Weighted-average common shares used in computing diluted net income per share	50,262	50,214

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 4,305,345 for the three months ended March 31, 2011. No restricted stock units were excluded from the diluted earnings per share computation as they were all dilutive for the three months ended March 31, 2011. In the first quarter of fiscal year 2010, the Company excluded 4,272,983 stock options from its calculation of weighted-average common shares used in computing dilutive net income per share. No restricted stock units were excluded from the diluted earnings per share computation as they were all dilutive for the three months ended March 31, 2010. 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 \$5.91 and \$6.39 for the quarters ended March 31, 2011 and 2010, respectively.

Income Taxes

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.

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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.

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

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 first quarter of fiscal 2011, we released a valuation allowance totaling approximately \$63,000 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.

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.

Sales Taxes

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

Comprehensive Income

Other comprehensive income 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 during the first quarter of fiscal 2011 and 2010 was comprised of the following (in thousands):

	Three Months Ended	
	March 31,	
	2011	2010
Net income	\$ 1,679	\$ 1,559
Foreign currency translation adjustment	475	(61)
Net unrealized gain (loss) on securities	2	(36)
Comprehensive income	\$ 2,156	\$ 1,462

The Company reported approximately \$475,000 in foreign currency translation gains in the first quarter of fiscal 2011. This gain related primarily to the translation and consolidation of its international operations. These gains reported during the first quarter of fiscal 2011 as compared to the losses reported in fiscal 2010 due primarily to the continued strength of the major European and Asian currencies against the U.S. Dollar in the first quarter of fiscal 2011.

Recent Accounting Pronouncements

During the three months ended March 31, 2011, there were no new accounting pronouncements that would have had a material effect on our unaudited condensed consolidated financial statements. For a description of recent accounting pronouncements relevant to us, please refer to Recent Accounting Pronouncements section included in Note 1 of our Annual Report on Form 10-K for the year ended December 31, 2010.

2. Acquisition of Xenos Group Inc.

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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.

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

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):

	In U.S. Dollars
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.

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 Income as incurred.

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.

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	Amount (in thousands)	Weighted Average Useful life (in years)
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
Total purchase price allocation	\$ 34,332	

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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.

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ACTUATE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 we are amortizing the fair value of the intangible asset on a straight-line basis over the respective estimated useful life of seven years beginning July 2010.

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 March 31, 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 \$690,000 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. Through March 31, 2011, the operating performance and liquidity requirements of Actuate Japan had not been material to the Company's results of operations or financial condition. Although the Company plans to maintain and expand 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.

4. Fair Value Measurements of Financial Assets and Liabilities

The Company adheres to FASB's authoritative guidance related to the fair value measurements of financial instruments. 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 investments 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 inputs on other than quoted prices included within level 1, for which all significant inputs are observable, either directly or indirectly.

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

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

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

	Fair value of investments as of March 31, 2011						
	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)	\$ 5,973	\$ 5,973	\$	\$			
Term deposits (1)	4,039	4,039					
Commercial paper (3)	16,996		16,996				
Corporate bonds (2)	32,118		32,118				
Federal and municipal obligations (2)	998		998				
	\$ 60,124	\$ 10,012	\$ 50,112	\$			

	Fair value of investments as of December 31, 2010						
	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) Included in short-term investments in the Company's condensed consolidated balance sheets.
(3) Of these amounts, approximately \$5 million and \$1.5 million were included in cash and cash equivalents at March 31, 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.

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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 March 31, 2011				
Classified as cash and cash equivalents:				
Cash	\$ 22,778	\$	\$	\$ 22,778
Term deposits	4,039			4,039
Money market funds	5,973			5,973
Commercial paper	5,000		(1)	4,999
	37,790		(1)	37,789
Classified as short-term investments:				
Commercial paper	11,995	2		11,997
Corporate bonds (1)	32,108	47	(37)	32,118
Federal and municipal obligations	1,000		(2)	998
	45,103	49	(39)	45,113
Total	\$ 82,893	\$ 49	\$ (40)	\$ 82,902

- (1) Securities totaling approximately \$5.1 million were in an unrealized loss position at March 31, 2011. None of these securities were in a continuous unrealized loss position for greater than 12 months.

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

	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 (1)	15,989	2	(5)	15,986
Corporate bonds	28,059	47	(35)	28,071
Federal and municipal obligations	2,000		(2)	1,998
	46,048	49	(42)	46,055
Total	\$ 79,317	\$ 49	\$ (42)	\$ 79,324

- (1) 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 March 31, 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.

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.

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 three months ended March 31, 2011 (in thousands):

Total

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	Severance & Benefits	Facility Related	
Balance at December 31, 2010	\$ 654	\$ 631	\$ 1,285
Restructuring charges	169	125	294
Cash payments, net of rents collected on sublease	(425)	(339)	(764)
Reclassified as a long-term asset (1)		26	26
Adjustments (2)	31	2	33
Balance at March 31, 2011	429	445	874
Less: current portion	(429)	(445)	(874)
Long-term balance at March 31, 2011	\$	\$	\$

- (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.

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ACTUATE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Segment and Geographic Information

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

	Three Months Ended March 31,	
	2011	2010
North America	\$ 25,548	\$ 22,389
Europe	5,090	5,772
Asia Pacific and others	1,450	913
	\$ 32,088	\$ 29,074

As of March 31, 2011, we operated solely in one segment, which is the development, marketing and support of our enterprise reporting application platforms. There were no customers that accounted for more than 10% of total revenues in the three months ended March 31, 2011 or the three months ended March 31, 2010.

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 March 31, 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):

	March 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer lists	\$ 22,030	\$ (15,338)	\$ 6,692	\$ 22,030	\$ (15,051)	\$ 6,979
Purchased technologies	15,659	(9,279)	6,380	15,659	(9,005)	6,654
IPR&D	1,961	(210)	1,751	1,961	(140)	1,821
Leases	47	(11)	36	47	(9)	38
	\$ 39,697	\$ (24,838)	\$ 14,859	\$ 39,697	\$ (24,205)	\$ 15,492

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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 is being amortized on a straight-line basis over the respective estimated useful life of seven years beginning July 2010.

Amortization expense of purchased technology and other intangible assets was approximately \$633,000 and \$599,000 for the quarters ended March 31, 2011 and 2010, respectively. Of this total, approximately \$274,000 and \$238,000 was related to the amortization of purchased technology for the periods ended March 31, 2011 and 2010, respectively. 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)	\$ 1,897
2012	2,530
2013	2,530
2014	2,530
2015 and thereafter	5,372
	\$ 14,859

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

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. As of March 31, 2011, the Company owed \$40 million on the credit facility. 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 March 31, 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.

As of March 31, 2011, the remaining balance available under the revolving credit facility was approximately \$10 million. Interest is based on a floating rate plus an applicable margin based on the outstanding balance of the amount drawn under the Credit Agreement. The floating rate is determined at the Company's election and may either be (i) London Interbank Offered Rate (LIBOR) or (ii) the greater of the Federal Funds Rate plus an applicable margin and the Prime Rate. If the Company's usage of the credit line exceeds 80% of its trailing four quarters of recurring maintenance revenue, or if the sum of available funds under the Credit Agreement plus available cash is less than \$10 million, the Company is required to meet certain minimum income targets and be subject to a limit on annual capital expenditures. As of March 31, 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 March 31, 2011. The Company is required to make interest payments and pay an unused commitment fee on a monthly basis. The Company incurred approximately \$327,000 of interest expense on the utilized portion of the credit facility in the first three months of fiscal 2011 compared with \$332,000 in fiscal 2010. Unused line fees and amortized debt issuance costs remained unchanged at approximately \$85,000 for the first quarter of fiscal 2011 compared to first quarter of fiscal 2010.

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,

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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.

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

Table of Contents**ACTUATE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****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 March 31, 2011, the deferred rent liability balance totaled approximately \$524,000 and this balance declines through 2012 when contractual cash payments exceed the straight-line lease expense. Of this total deferred rent liability balance, approximately \$381,000 was classified under the current accrued liabilities section of our consolidated balance sheet with the remaining portion of approximately \$143,000 classified under other long term liabilities section of our consolidated balance sheet at March 31, 2011. The incentives were applied to leasehold improvements completed during the fourth quarter of fiscal 2007. Actuate also leases an additional 50,400 square feet in one facility in South San Francisco, California. The lease on this additional facility will expire in May 2011 and this facility is being entirely subleased. 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 \$860,000 in the first quarter of fiscal 2011 and approximately \$874,000 in the first quarter of fiscal 2010.

Stock Option Plans

Beginning in January 2010, an individual who first joins the Board of Directors as a non-employee director will be awarded an option to purchase 25,000 shares of the Corporation's Common Stock and a restricted stock unit award covering 12,500 shares of the Corporation'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. Starting with the 2010 Annual Meeting of Stockholders, each continuing non-employee director will be awarded an option to purchase 16,000 shares of the Corporation's Common Stock and a restricted stock unit award covering 8,000 shares of the Corporation's Common Stock at each Annual Meeting of Stockholders. Each option will vest upon the non-employee directors continued Board service through the first anniversary of the award date. Each restricted stock unit award will vest upon the non-employee directors continued Board service through the 13-month anniversary of the award date. All grants will be made under the 1998 Plan. Each restricted stock unit award and each option award will vest in full on an accelerated basis upon (i) an approved acquisition of the Corporation by merger or consolidation, (ii) a sale of all or substantially all of the Corporation'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 Corporation'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 award will entitle the recipient to one share of the Corporation's Common Stock on the date when the applicable vesting requirements for that unit are satisfied. A non-employee director may, in accordance with applicable tax laws and regulations, elect to defer the issuance of the shares of Common Stock that vest pursuant to his or her restricted stock unit award until his or her cessation of Board service.

All directors are eligible to receive option awards under Actuate's Amended and Restated 1998 Equity Incentive Plan (the "1998 Plan"). The Board of Directors resolved that the grants awards to be made at the Annual Meeting of Stockholders to the non-employee directors shall be made under the 1998 Plan rather than the Directors Plan. All other terms of the non-employee director program, including vesting schedules for the initial grant award and the automatic annual award remain unchanged.

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.

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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 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.

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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 32,030,262 as of March 31, 2011.

The weighted average grant date fair value of options granted during the quarter ended March 31, 2011 was \$2.80 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 March 31, 2011 was \$330,000.

All vested stock options are exercisable. The following table summarizes information about stock options outstanding and exercisable as of March 31, 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	3,056,036	1.92 years	\$ 1.49	3,056,036	\$ 1.49
\$1.56-\$3.42	1,884,132	3.34 years	\$ 2.71	1,870,574	\$ 2.71
\$3.44-\$3.75	2,917,704	4.65 years	\$ 3.60	2,229,885	\$ 3.61
\$3.77-\$4.80	3,284,364	5.53 years	\$ 4.53	1,850,477	\$ 4.49
\$4.84-\$5.34	2,200,070	6.08 years	\$ 5.15	1,740,087	\$ 5.12
\$5.36-\$6.06	1,716,688	8.38 years	\$ 5.50	108,359	\$ 5.58
\$6.10-\$7.02	1,891,164	5.84 years	\$ 6.24	1,555,974	\$ 6.25
\$7.33-\$12.11	204,717	1.82 years	\$ 8.57	193,332	\$ 8.62
\$0.78-\$12.11	17,154,875	4.84 years	\$ 4.04	12,604,724	\$ 3.72

	March 31, 2011	March 31, 2010
Options Outstanding		
Vested and Expected to Vest		
Vested and expected to vest, net of expected forfeitures	17,024,725	17,108,709
Aggregate intrinsic value (in thousands)	\$ 23,012	\$ 31,035
Weighted average exercise price per share	\$ 4.04	\$ 3.96
Weighted average remaining contractual term (in years)	4.82	5.85
Options Exercisable		
Options currently exercisable	12,604,724	11,843,579
Aggregate intrinsic value of currently exercisable options (in thousands)	\$ 21,007	\$ 26,077
Weighted average exercise price per share	\$ 3.72	\$ 3.60
Weighted average remaining contractual term (in years)	3.77	4.63

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As of March 31, 2011, the number of shares reserved for future grants under all option plans was 14,504,401. 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 three months ended March 31, 2011:

	RSU Activity during the Quarter
Beginning outstanding balance as of December 31, 2010:	182,500
Awarded	192,500
Released	(5,251)
Forfeited	
Ending outstanding balance as of March 31, 2011:	369,749

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

The weighted average grant date fair value of restricted stock units granted during the quarter ended March 31, 2011 was \$4.80 per unit.

	Number of Units	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (thousands)
Restricted stock units outstanding	369,749	2.01	\$ 1,923
Restricted stock units vested and expected to vest (1)	356,361	1.98	\$ 1,691
Restricted stock units vested and deferred	31,250		\$ 163

(1) Net of expected forfeitures

9. Deferred Revenue

Deferred revenue consists of the following (in thousands):

	March 31, 2011	December 31, 2010
Maintenance and support	\$ 43,450	\$ 43,209
Other	4,557	2,738
	48,007	\$ 45,947
Less: current portion	(46,702)	(44,600)
Long-term deferred revenue	\$ 1,305	\$ 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 revenue recognition criteria of SOP No. 97-2 and are, therefore, deferred until all revenue recognition criteria have been met.

10. Subsequent Events

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.

In April 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 expect that our global workforce will be reduced by approximately 20-25 positions. The timing and scope of workforce reductions will vary by location. We expect to complete

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the majority of the activities related to the restructuring program by June 30, 2011. In connection with the restructuring plan, we expect to record restructuring charges, mostly related to employee severance arrangements during the second quarter of fiscal 2011.

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, www.birt-exchange.org and 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. We achieved these results not only through our solid execution, leading technology and strong customer relationships, but also because of our commitment to operating efficiencies which have resulted in significant reductions to our operating expenses, as we aligned our business to weather a turbulent and unpredictable macro-economic environment.

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 trend continues, it will 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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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 starting in late fiscal year 2007 have adversely impacted IT spending in the financial services industry throughout fiscal year 2010. We anticipate that this trend may improve in fiscal 2011, however, if this trend continues, it will likely have a material adverse effect on the Company's business, financial condition and results of operations.

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 will 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 March 31, (in thousands except per share data)			
	2011	2010	\$ Change	% Change
Financial summary				
Total revenues	\$ 32,088	\$ 29,074	\$ 3,014	10%
Total operating expenses	29,405	28,144	1,261	5%
Income from operations	2,683	930	1,753	189%
Operating margins	8%	3%	5%	167%
Net income	\$ 1,679	\$ 1,559	\$ 120	8%
Diluted net income per share	\$ 0.03	\$ 0.03	\$	%
Shares used in diluted per share calculation	50,262	50,214		

Financial Performance Summary for the quarter ended March 31, 2011:

Increase in license revenues of 22% or approximately \$2.1 million. This increase was primarily a result of improved license bookings in North America, as well as strong sales of our BIRT product offering.

Increase in services revenues of 5% or \$949,000 due to higher maintenance and support revenues driven by improving license bookings over the past three consecutive quarters and slight improvement in our maintenance renewal decline rate.

Increase in operating margins due to improvement in the overall revenues.

Increase in operating expenses of 5% or approximately \$1.3 million driven mainly by a 9% increase in our average headcount resulting in higher salaries and associated benefits. This increase in average headcount and associated employee compensation was mainly due to our prior year acquisition of Xenos which resulted in one additional month of operating expenses in the most recent quarter compared with the same period last year. The additional month of operating expense this year was due to the timing of the acquisition in February 2010 which resulted in two months of operating expenses during the first quarter of fiscal 2010 compared with three months of operating expenses during the first quarter of fiscal 2011. We also experienced higher sales commissions due to an increase in commissionable bookings during the first quarter of fiscal 2011. These increases in operating expenses were partially offset by lower legal fees as we concluded on several large contract compliance matters last year.

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 March 31,	
	2011	2010
Revenues:		
License fees	36%	33%
Services	64	67
 Total revenues	 100	 100
Costs and expenses:		
Cost of license fees	2	2
Cost of services	17	16
Sales and marketing	34	33
Research and development	20	20
General and administrative	17	24
Amortization of other purchased intangibles	1	1
Restructuring charges	1	1
 Total costs and expenses	 92	 97
 Income from operations	 8	 3
Interest income and other income /(expense), net	1	(2)
Interest expense	(1)	(1)
 Income before income taxes	 8	
Provision for (benefit from) income taxes	3	(5)
 Net income	 5%	 5%

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 10% from \$29.1 million for the quarter ended March 31, 2010 to \$32.1 million for the quarter ended March 31, 2011. We experienced revenue growth in North America of 14% or \$3.2 million and 59% or approximately \$537,000 in the Asia Pacific region. Partially offsetting these positive results was a 12% or approximately \$682,000 decrease in revenues from Europe as we continue to face a challenging market in that region.

Our maintenance revenue increased due to three 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 first 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. We experienced improvements in our professional services revenues during the first quarter of 2011. Professional services revenues were higher mainly due to increased third party consulting and professional training. A significant migration project from one of our customer in North America and two consecutive quarters of strong service bookings placed a higher demand on our professional services partners as we did not have sufficient internal Actuate staff to meet the customer dates, therefore resulting in higher third party consulting revenues.

Sales outside of North America were \$6.5 million or 20% of total revenues for the first quarter of fiscal 2011, compared to \$6.7 million, or 23% of total revenues for the first quarter of fiscal 2010. The year over year decrease in international revenues was due to declining revenues in Europe. As a result of fluctuations in foreign currency exchange rates, our total revenues were positively impacted by approximately \$130,000 during the first quarter of fiscal 2011.

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	Three Months Ended (in thousands)			
	2011	March 31, 2010	Variance \$ s	Variance %
Revenues				
License fees	\$ 11,657	\$ 9,592	\$ 2,065	22%
Services	20,431	19,482	949	5%
Total revenues	\$ 32,088	\$ 29,074	\$ 3,014	10%
% of revenue				
License fees	36%	33%		
Services	64%	67%		
Total revenues	100%	100%		

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License fees. The increase in license revenues for the first quarter of fiscal 2011 over the same period in the prior year was due to improved demand in the North America region. License revenues in North America increased by 35% or approximately \$2.5 million as we experienced increased customer demand for our BIRT-based products. We also experienced a similar positive trend in the Asia Pacific region as license sales grew 134% or \$347,000 during the first quarter of fiscal 2011. These positive revenue trends were partially offset by a 38% or \$781,000 decrease in license revenues in Europe as we continue to face a challenging market in that region. Foreign currency exchange gains attributed to international license revenues were minimal during the first quarter of fiscal 2011 compared to the same period in the prior year. During the first quarter of fiscal 2011, we completed three license transactions greater than \$1 million and closed transactions greater than \$100,000 with 62 customers. During the same period last year we completed two license transactions greater than \$1 million and closed transactions greater than \$100,000 with 52 customers.

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

	Q1 2011	Q1 2010	\$ Change	% Change
North America	\$ 9,747	\$ 7,248	\$ 2,499	35%
Europe	1,304	2,085	(781)	(38)%
APAC	606	259	347	134%
Total license revenue	\$ 11,657	\$ 9,592	\$ 2,065	22%
Percentage of total revenue	36%	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 three consecutive quarters. We have also seen a slight improvement in our maintenance renewal decline rate. Professional services revenues increased due to increased third party consulting and professional training. A significant customer migration project and two consecutive quarters of strong service bookings placed a higher demand on our professional services partners as we did not have sufficient internal Actuate staff to meet the customer dates, therefore resulting in higher third party consulting revenues.

By region, North America accounted for approximately 77% of the total services revenue in the first quarter of fiscal 2011 while the Europe and Asia Pacific regions accounted for 19% and 4% 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 19% and 3% of the total services revenues, respectively.

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

	Q1 2011	Q1 2010	\$ Change	% Change
North America	\$ 15,801	\$ 15,141	\$ 660	4%
Europe	3,786	3,687	99	3%
APAC	844	654	190	29%
Total services revenue	\$ 20,431	\$ 19,482	\$ 949	5%
Percentage of total revenue:	64%	67%		

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

	Three Months Ended (In thousands)			
	March 31,		Variance	Variance
	2011	2010	\$ s	%
Cost of license fees	\$ 481	\$ 440	\$ 41	9%
% of license revenue	5%	5%		

Cost of license fees consists primarily of product packaging, documentation, production costs and the amortization of purchased technology. The increase in cost of license fees in absolute dollars for the first quarter 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)			
	March 31,		Variance	Variance
	2011	2010	\$ s	%
Cost of services	\$ 5,431	\$ 4,527	\$ 904	20%
% of services revenue	27%	23%		

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 first quarter of fiscal 2011, compared to the prior year was due to one additional month of expenses related to Xenos during the first quarter of fiscal 2011 compared with the same period last year. This was due to the timing of the acquisition in February 2010 which resulted in two months of expenses in the first quarter of fiscal 2010 compared with three months of expenses incurred in the first quarter 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. We experienced increased third party consulting fees due to a significant customer migration project and two consecutive quarters of strong service bookings 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. Currently we expect our cost of services expenses as a percentage of total services revenues to be in the range of 23% to 25% of total services revenues for the remainder of fiscal 2011.

Sales and marketing

	Three Months Ended (In thousands)			
	March 31,		Variance	Variance
	2011	2010	\$ s	%
Sales and marketing	\$ 11,025	\$ 9,524	\$ 1,501	16%
% of revenue	34%	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 overall sales and marketing expense increased compared to the corresponding period in the prior year due to one additional month of expenses related to Xenos during the first quarter of fiscal 2011 compared with the same period last year due to the timing of the acquisition. Salaries, sales commissions, stock-based compensation and employee travel combined to account for approximately \$850,000 of the increase in the first quarter of fiscal 2011 expenses. The increase in salaries was due to a 15% increase in our average quarterly sales and marketing headcount from 142 at the end of the first quarter of 2010 to 163 at the end of the first quarter 2011. Annual merit increases also contributed to higher salaries expenses during the quarter. The increase in commissions was due to the increase in license bookings, which translated into higher sales commissions during the quarter as well as escalated payouts as we reach the

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conclusion of our sales year at the end of June 2011. Marketing program expenses increased by approximately \$260,000 mainly due to the use of onsite vendors for webinars and web marketing for the sponsorship of the IBM conference during the first quarter 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.

Table of Contents*Research and development*

	Three Months Ended (In thousands)			
	March 31,		Variance	Variance
	2011	2010	\$ s	%
Research and development	\$ 6,381	\$ 5,922	\$ 459	8%
% of revenue	20%	20%		

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 overall research and development expense increased compared to the corresponding period in the prior year due to one additional month of expenses related to Xenos during the first quarter 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 quarter. 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)			
	March 31,		Variance	Variance
	2011	2010	\$ s	%
General and administrative	\$ 5,434	\$ 6,983	\$ (1,549)	(22)%
% of revenue	17%	24%		

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 first quarter of fiscal 2011 was primarily due to reductions in legal fees resulting from successful settlement of several contract compliance matters prior to the end of third quarter 2010 and expenses related to the Xenos acquisition which was completed in February 2010. As a result, litigation and acquisition related expenses decreased by approximately \$2.5 million in the first quarter of 2011 compared to the same quarter last year. The decrease in legal fees were partially offset by increases in employee compensation due to annual merit increases, management bonuses, increased 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. 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.

Amortization of other purchased intangibles

Amortization expense during the first quarter of fiscal 2011 remained approximately at the same levels experienced during the first quarter of fiscal 2010 as 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)			
	March 31,		Variance	Variance
	2011	2010	\$ s	%
Restructuring	\$ 294	\$ 387	\$ (93)	(24)%
% of revenue	1%	1%		

During the first quarter of fiscal 2011, we implemented restructuring actions that resulted in an aggregate charge of \$294,000 and the elimination of most of our 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 our South San Francisco facility.

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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.

Table of Contents*Interest and other income, net*

	Three Months Ended (in thousands)			
	March 31, 2011	March 31, 2010	Variance \$ s	Variance %
Interest and other income	\$ 88	\$ 154	\$ (66)	(43)%
Foreign exchange gain/(loss)	192	(657)	849	129%
Total interest and other income (loss), net	\$ 280	\$ (503)	\$ 783	156%
Interest expense	(412)	(417)	(5)	(1)%

Interest income during the first quarter of fiscal 2011 decreased due to a decrease in interest rates. During the first quarter of 2011, we also experienced currency exchange gains as a result of favorable revaluation of net assets in Europe which was mainly due to the strength in Euro and British Pound against the Swiss Franc. The revaluation of these currency amounts held in Switzerland to Swiss Francs is a required procedure in consolidating and reporting the financial results of our European operations.

Provision for (benefit from) income taxes

	Three Months Ended (In thousands)			
	March 31, 2011	March 31, 2010	Variance \$ s	Variance %
Provision for (benefit from) income taxes	\$ 872	\$ (1,549)	\$ 2,421	156%
% of revenue	3%	(5)%		

For the three months ended March 31, 2011, we recorded an income tax provision of approximately \$872,000, as compared to an income tax benefit of approximately \$1.5 million for the same period last year. The increase in the income tax provision for the first quarter of fiscal 2011 as compared to the first quarter of fiscal 2010 is mainly due to higher earnings for the quarter. The tax benefit for the first quarter of fiscal 2010 is due to a benefit of \$1.6 million recognized during the 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 March 31, 2011, the Company decreased its reserve for uncertain tax positions by approximately \$35,000. The decrease during the quarter is related to the resolution of the tax issue related to the Canadian voluntary tax disclosure agreement. 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.

Liquidity and Capital Resources

	As of March 31, 2011	As of March 31, 2010	Change \$	Change %
<i>(dollars in thousands)</i>				
Cash, cash equivalents and short-term investments	\$ 82,902	\$ 68,161	\$ 14,741	22%
Working capital	\$ 58,393	\$ 34,883	\$ 23,510	67%
Note payable	\$ 40,000	\$ 40,000	\$	%
Stockholders' equity and non-controlling interest	\$ 97,111	\$ 76,751	\$ 20,360	27%

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

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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 three 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 24 days from 61 days at March 31, 2010 to 85 days at March 31, 2011. Increased sales and higher billings resulted in a 53% increase in the receivable balance at the end of the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010. This increase in receivables was the primary driver for the lower cash flows generated from operations.

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The primary uses of cash from operations consist of salaries, 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 March 31, 2011, we remained contractually committed to \$7.3 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. Cash provided from investing activities for the three months ended March 31, 2011 was approximately \$454,000 compared with cash used of \$35.1 million for the same period in fiscal 2010 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 provided by financing activities was \$1.1 million for the three months ended March 31, 2011 compared to \$7.9 million provided by financing activities during the same period in fiscal 2010. This decrease in cash provided was due to additional borrowings under the Company's credit facility last year which resulted in approximately \$10 million of additional cashflows, partially offset by \$5 million in share buybacks. We also generated lower proceeds from the exercise of employee stock options during the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010.

We hold our cash, cash equivalents and investments primarily in the United States, Switzerland, and Singapore. As of March 31, 2011, we held an aggregate of approximately \$60.2 million in cash, cash equivalents and investments in North America and an aggregate of \$22.7 million in foreign accounts. Funds in foreign accounts are primarily generated from revenue outside North America and are used to fund overseas 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.

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. As of March 31, 2011, the Company owed \$40 million on the credit facility. 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 March 31, 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

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beyond one year. The Credit Agreement is for a period of four years and is scheduled to expire on November 3, 2012.

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As of March 31, 2011, the remaining balance available under the revolving credit facility was approximately \$10 million. Interest is based on a floating rate plus an applicable margin based on the outstanding balance of the amount drawn under the Credit Agreement. The floating rate is determined at the Company's election and may either be (i) London Interbank Offered Rate (LIBOR) or (ii) the greater of the Federal Funds Rate plus an applicable margin and the Prime Rate. If the Company's usage of the credit line exceeds 80% of its trailing four quarters of recurring maintenance revenue, or if the sum of available funds under the Credit Agreement plus available cash is less than \$10 million, the Company is required to meet certain minimum income targets and be subject to a limit on annual capital expenditures. As of March 31, 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 the covenants at March 31, 2011. The Company is required to make interest payments and pay an unused commitment fee on a monthly basis. The Company incurred approximately \$327,000 of interest expense on the utilized portion of the credit facility in the first three months of fiscal 2011 compared with \$332,000 in fiscal 2010. Unused line fees and amortized debt issuance costs remained unchanged at approximately \$85,000 for the first quarter of fiscal 2011 compared to first quarter of fiscal 2010.

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.

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

Operating Lease Commitments

Our license agreements include indemnification for infringement of third party intellectual property rights and certain warranties. Historically, the Company has not experienced significant claims under these contractual rights. Therefore, no amounts have been accrued relating to those indemnities and warranties.

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 March 31, 2011, the deferred rent liability balance totaled approximately \$524,000 and this balance declines through 2012 when contractual cash payments exceed the straight-line lease expense. Of this total deferred rent liability balance, approximately \$381,000 was classified under the current accrued liabilities section of our consolidated balance sheet with the remaining portion of approximately \$143,000 classified under other long term liabilities section of our consolidated balance sheet at March 31, 2011. The incentives were applied to leasehold improvements completed during the fourth quarter of fiscal 2007. Actuate also leases an additional 50,400 square feet in one facility in South San Francisco, California. The lease on this additional facility will expire in May 2011 and this facility is being entirely subleased. 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 \$860,000 in the first quarter of fiscal 2011 and approximately \$874,000 in the first quarter of fiscal 2010.

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	Total	Less than 1 year	1 3 years	3 5 years	Thereafter
Obligations:					
Operating leases (1)	\$ 7,365	\$ 3,742	\$ 2,976	\$ 647	\$
Interest and loan obligations (2)	42,296	1,480	40,816		
Obligations for uncertain tax positions (3)	851		851		
Total	\$ 50,512	\$ 5,222	\$ 44,643	\$ 647	\$
Contractual sublease proceeds	\$ 106	\$ 106	\$	\$	\$

- (1) Our future contractual obligations include minimum lease payments under operating leases at March 31, 2011. Of the remaining future minimum lease payments, approximately \$500,000 is included in restructuring liabilities on the Company's Consolidated Balance Sheet as of March 31, 2011. Contractual sublease proceeds associated with these minimum lease payments total approximately \$106,000 and are also included in restructuring liabilities on the Company's Consolidated Balance Sheet as of March 31, 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.

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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 three months of fiscal years 2011 and 2010 we derived 20% of our total revenues from sales outside of North America. We face exposure to market risk on these receivables with respect to fluctuations in the relative value of currencies. Our international revenues and expenses are denominated in foreign currencies, principally the Euro and the British Pound Sterling. The functional currency of each of our foreign subsidiaries is the local currency. 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 gains due to foreign exchange rate fluctuations was approximately \$192,000 during the first three months of fiscal 2011 compared to losses of approximately \$657,000 for the first three months of fiscal 2010. During the first quarter of fiscal 2011, exchange rate fluctuations on foreign revenue transactions positively impacted our total revenues by approximately \$130,000 when compared to the same period in the prior year while expenses were negatively impacted by approximately \$230,000.

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, Canadian Dollar, 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 March 31, 2011:

Annual change in currency exchange (in thousands)					
-15%	-10%	-5%	+5%	+10%	+15%
\$(1,740)	\$ (1,160)	\$ (580)	\$ 580	\$ 1,160	\$ 1,740

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.

We also have a \$40.0 million loan with Wells Fargo Foothill which we used to partially fund our tender offer in the fourth quarter of 2009 and acquisition of Xenos in the first quarter of 2010. We performed a sensitivity analysis on the outstanding portion of this loan as of March 31, 2011. The analysis is based on an estimate of the hypothetical changes in annual interest expense that would result from an immediate increase/decrease in interest rates.

The analysis is shown as of March 31, 2011:

Annual change in interest expense (in thousands)					
-1.5%	-1.0%	-0.5%	+0.5%	+1.0%	+1.5%
(600)	(400)	(200)	200	400	600

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.

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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.

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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.

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

ITEM 4. CONTROLS AND PROCEDURES

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. 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, to allow timely decisions regarding required disclosure.

As of December 31, 2010, we had reported a material weakness in our financial reporting related to our internal controls over the accuracy of the provision for income taxes. Please refer to Item 9A, *Management's Report on Internal Control over Financial Reporting*, in our 2010 Annual Report.

The material weakness was as follows:

The Company did not maintain effective controls over the accuracy of the provision for income taxes. We did not maintain effective controls over the execution of tax provision because of a lack of resources with expertise in nonrecurring 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.

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

To remediate the material weakness described above and enhance our internal control over financial reporting, we are currently enhancing our control environment and control activities intended to address the material weakness in our internal control over financial reporting and to remedy the ineffectiveness of our disclosure controls and procedures. During the three months ended March 31, 2011, we continued remediation initiatives, which are intended to address our material weakness in internal control over financial reporting, specifically continuing:

to work with an experienced third-party accounting firm in the preparation and analysis of our interim and annual income tax accounting.

to identify and analyze non-recurring transactions occurring during each accounting period to determine the appropriate accounting treatment for each non-recurring transaction.

Management believes these measures have had a positive effect on our internal control over financial reporting since December 31, 2010, and anticipates that these measures including our plan to hire an additional tax professional and implement additional enhanced review procedures will continue to have a positive impact on our internal control over financial reporting in future periods.

Notwithstanding such efforts, the material weakness related to the accuracy of the provision for income taxes described above will not be remediated until the new controls operate for a sufficient period of time and are tested to enable management to conclude that the controls are

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effective. Management will consider the design and operating effectiveness of these controls and will make any additional changes management determines appropriate.

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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 indicat