BROADRIDGE FINANCIAL SOLUTIONS, INC.
Form 10-Q
February 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-33220

BROADRIDGE FINANCIAL SOLUTIONS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	33-1151291
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5 Dakota Drive Lake Success, NY	11042
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (516) 472-5400

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 x 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 (Section 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 x 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 the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x		Accelerated filer	¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging Growth Company ¨	If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.		¨

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

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of January 31, 2018, was 116,654,180 shares.

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Earnings
(In millions, except per share amounts)
(Unaudited)

		Three Months Ended December 31,		Six Months Ended December 31,	
		2017	2016	2017	2016
Revenues		$1,012.8	$892.6	$1,937.6	$1,787.9
Operating expenses:					
Cost of revenues		769.8	707.8	1,496.4	1,425.7
Selling, general and administrative expenses		127.9	126.0	241.7	237.3
Total operating expenses		897.7	833.8	1,738.1	1,663.1
Operating income		115.1	58.8	199.5	124.9
Interest expense, net	(Note 4)	10.2	10.6	19.6	21.0
Other non-operating (income) expenses, net	(Note 5)	1.4	2.5	2.1	6.7
Earnings before income taxes		103.5	45.7	177.8	97.2
Provision for income taxes	(Note 12)	41.4	15.6	65.8	33.4
Net earnings		$62.1	$30.1	$112.0	$63.8
Basic earnings per share		$0.53	$0.25	$0.96	$0.54
Diluted earnings per share		$0.52	$0.25	$0.93	$0.52
Weighted-average shares outstanding:					
Basic	(Note 3)	116.6	118.7	116.5	118.6
Diluted	(Note 3)	120.3	121.5	120.1	121.5
Dividends declared per common share		$0.365	$0.33	$0.73	$0.66

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net earnings	$62.1	$30.1	$112.0	$63.8
Other comprehensive income (loss), net:				
Foreign currency translation adjustments	(2.4)	(12.0)	15.9	(23.2)
Net unrealized gains (losses) on available-for-sale securities, net of taxes of $(0.3) and $0.1 for the three months ended December 31, 2017 and 2016, respectively; and $(0.5) and $(0.1) for the six months ended December 31, 2017 and 2016, respectively	0.8	(0.2)	1.1	0.2
Pension and post-retirement liability adjustment, net of taxes of $(0.1) and $(0.1) for the three months ended December 31, 2017 and 2016, respectively; and $(0.2) and $(0.2) for the six months ended December 31, 2017 and 2016, respectively	0.2	0.1	0.4	0.3
Total other comprehensive income (loss), net	(1.4)	(12.0)	17.4	(22.7)
Comprehensive income	$60.7	$18.1	$129.4	$41.1

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.
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Broadridge Financial Solutions, Inc.
Condensed Consolidated Balance Sheets
(In millions, except per share amounts)
(Unaudited)

		December 31, 2017	June 30, 2017
Assets			
Current assets:			
Cash and cash equivalents		$ 366.5	$ 271.1
Accounts receivable, net of allowance for doubtful accounts of $5.0 and $3.7, respectively		575.1	589.5
Other current assets		109.6	129.0
Total current assets		1,051.2	989.6
Property, plant and equipment, net		202.5	198.1
Goodwill		1,193.1	1,159.3
Intangible assets, net		464.1	486.4
Other non-current assets	(Note 8)	339.1	316.4
Total assets		$ 3,249.9	$ 3,149.8
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable		$ 134.3	$ 167.2
Accrued expenses and other current liabilities	(Note 9)	372.5	495.3
Deferred revenues		79.2	82.4
Total current liabilities		586.0	744.9
Long-term debt	(Note 10)	1,222.7	1,102.1
Deferred taxes		52.5	82.0
Deferred revenues		83.4	74.3
Other non-current liabilities		231.2	142.7
Total liabilities		2,175.9	2,146.0
Commitments and contingencies	(Note 13)		
Stockholders' equity:			
Preferred stock: Authorized, 25.0 shares; issued and outstanding, none		—	—
Common stock, $0.01 par value: 650.0 shares authorized; 154.5 and 154.5 shares issued, respectively; and 116.6 and 116.5 shares outstanding, respectively		1.6	1.6
Additional paid-in capital		1,012.6	987.6
Retained earnings		1,496.3	1,469.4
Treasury stock, at cost: 37.8 and 38.0 shares, respectively		(1,398.0)	(1,398.9)
Accumulated other comprehensive loss	(Note 14)	(38.4)	(55.8)
Total stockholders' equity		1,074.0	1,003.8
Total liabilities and stockholders' equity		$ 3,249.9	$ 3,149.8

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Six Months Ended December 31, 2017	2016
Cash Flows From Operating Activities		
Net earnings	$112.0	$63.8
Adjustments to reconcile Net earnings to Net cash flows provided by operating activities:		
Depreciation and amortization	40.0	34.5
Amortization of acquired intangibles and purchased intellectual property	39.2	33.1
Amortization of other assets	22.9	19.6
Stock-based compensation expense	24.7	22.8
Deferred income taxes	(11.2)	(8.9)
Excess tax benefits from stock-based compensation awards	—	(22.0)
Other	(1.7)	0.8
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Current assets and liabilities:		
Decrease in Accounts receivable, net	18.0	29.3
Increase in Other current assets	(6.2)	(22.8)
Decrease in Accounts payable	(9.3)	(1.9)
Decrease in Accrued expenses and other current liabilities	(138.2)	(100.2)
Decrease in Deferred revenues	(5.5)	(5.5)
Non-current assets and liabilities:		
Increase in Other non-current assets	(37.9)	(57.4)
Increase in Other non-current liabilities	95.1	9.3
Net cash flows provided by (used in) operating activities	141.8	(5.5)
Cash Flows From Investing Activities		
Capital expenditures	(42.1)	(19.9)
Software purchases and capitalized internal use software	(10.4)	(12.1)
Acquisitions, net of cash acquired	(30.2)	(428.4)
Purchase of intellectual property	—	(90.0)
Equity method investments	(2.8)	(3.0)
Net cash flows used in investing activities	(85.4)	(553.4)
Cash Flows From Financing Activities		
Proceeds from Long-term debt	190.0	230.0
Repayments on Long-term debt	(70.0)	(40.0)
Excess tax benefits from stock-based compensation awards	—	22.0
Dividends paid	(80.4)	(74.0)
Purchases of Treasury stock	(3.0)	(101.2)
Proceeds from exercise of stock options	4.4	34.0
Costs related to issuance of bonds	—	(0.7)
Other financing activities	(5.5)	—
Net cash flows provided by financing activities	35.4	70.2
Effect of exchange rate changes on Cash and cash equivalents	3.6	(3.3)
Net change in Cash and cash equivalents	95.4	(492.0)
Cash and cash equivalents, beginning of period	271.1	727.7

Cash and cash equivalents, end of period	$366.5	$235.7
Supplemental disclosure of cash flow information:		
Cash payments made for interest	$19.9	$20.8
Cash payments made for income taxes, net of refunds	$124.9	$74.9
Non-cash investing and financing activities:		
Accrual of unpaid property, plant and equipment and software	$1.7	$0.6
Increase in acquisition related obligations	$6.4	$2.5
Obligations related to the purchase of intellectual property	$—	$5.0

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
NOTE 1. BASIS OF PRESENTATION
A. Description of Business. Broadridge Financial Solutions, Inc. (“Broadridge” or the “Company”), a Delaware corporation, is a global fintech leader providing investor communications and technology-driven solutions to banks, broker-dealers, mutual funds and corporate issuers. Our services include investor and customer communications, securities processing, and data and analytics solutions. In short, we provide the infrastructure that helps the financial services industry operate. With over 50 years of experience, including 10 years as an independent public company, we provide financial services firms with advanced, dependable, scalable and cost-effective integrated systems. Our systems help reduce the need for clients to make significant capital investments in operations infrastructure, thereby allowing them to increase their focus on core business activities. We deliver a broad range of solutions that help our clients better serve their retail and institutional customers across the entire investment lifecycle, including pre-trade, trade, and post-trade processing functionality.

The Company operates in two reportable segments: Investor Communication Solutions and Global Technology and Operations. Broadridge serves a large and diverse client base across four client groups: capital markets, asset management, wealth management and corporations.

- Investor Communication Solutions—Broadridge offers Bank/Broker-Dealer Investor Communication Solutions, Customer Communication Solutions, Corporate Issuer Solutions, Advisor Solutions and Mutual Fund and Retirement Solutions in this segment. A large portion of Broadridge’s Investor Communication Solutions business involves the processing and distribution of proxy materials to investors in equity securities and mutual funds, as well as the facilitation of related vote processing. ProxyEdge®, Broadridge’s innovative electronic proxy delivery and voting solution for institutional investors and financial advisors, helps ensure the participation of the largest stockholders of many companies. In addition, Broadridge provides corporations with registered proxy services as well as registrar, stock transfer and record-keeping services. Broadridge also provides the distribution of regulatory reports and corporate action/reorganization event information, as well as tax reporting solutions that help our clients meet their regulatory compliance needs.

Broadridge provides customer communication solutions to companies in the financial services, healthcare, insurance, consumer finance, telecommunications, utilities, retail banking and other service industries. The Broadridge Communications Cloud℠, launched in 2016, provides multi-channel communications delivery, communications management, information management and control and administration capabilities that enable and enhance our clients’ communications with their customers. Broadridge processes and distributes our clients’ essential communications including transactional (e.g., bills and statements), regulatory (e.g., explanations of benefits, notices, and trade confirmations) and marketing (e.g., direct mail) communications through print and digital channels.

Broadridge’s advisor solutions enable firms, financial advisors, wealth managers, and insurance agents to better engage with customers through cloud-based marketing and customer communication tools. Broadridge’s marketing ecosystem integrates data, content and technology to drive new client acquisition and cross-sell opportunities through the creation of sales and educational content, including seminars and a library of financial planning topics as well as customizable advisor websites, search engine marketing and electronic and print newsletters. Broadridge’s advisor solutions also help advisors optimize their practice management through customer and account data aggregation and reporting.

Broadridge’s mutual fund and retirement solutions are a full range of tools for mutual funds, exchange traded fund (“ETF”) providers, and asset management firms. They include data-driven technology solutions for data management, analytics, investment accounting, marketing and customer communications. In addition, Broadridge provides mutual fund trade processing services for retirement providers, third party administrators, financial advisors, banks and wealth management professionals through its subsidiary, Matrix Financial Solutions, Inc. (“Matrix”).

In October 2017, Broadridge acquired Summit Financial Disclosure, LLC (“Summit”). Summit is a full service financial document management solutions provider, including document composition and regulatory filing services.

- Global Technology and Operations—Broadridge offers a suite of advanced computerized real-time transaction processing services that automate the securities transaction lifecycle, from desktop productivity tools, data aggregation, performance reporting, and portfolio management to order capture and execution, trade confirmation, settlement, reference data, reconciliations and accounting. Broadridge's services help financial institutions and investment managers efficiently and cost-effectively consolidate their books and records, gather and service assets under management and manage risk, thereby enabling them to focus on their core business activities. Broadridge's multi-currency solutions support real-time global trading of equity, fixed income, mutual fund, foreign exchange and exchange traded derivative securities in established and emerging markets. In addition, Broadridge's Managed Services solution supports the operations of our clients' businesses including their securities clearing, record-keeping, and custody-related functions.

B. Consolidation and Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America ("U.S.") and in accordance with the U.S. Securities and Exchange Commission ("SEC") requirements for Quarterly Reports on Form 10-Q. These financial statements present the condensed consolidated position of the Company and include the entities in which the Company directly or indirectly has a controlling financial interest as well as various entities in which the Company has investments recorded under either the cost or equity methods of accounting. Intercompany balances and transactions have been eliminated. Amounts presented may not sum due to rounding. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 (the "2017 Annual Report") filed on August 10, 2017 with the SEC. These Condensed Consolidated Financial Statements include all normal and recurring adjustments necessary for a fair presentation in accordance with GAAP of the Company's financial position at December 31, 2017 and June 30, 2017, the results of its operations for the three and six months ended December 31, 2017 and 2016, and its cash flows for the six months ended December 31, 2017 and 2016.

In the first quarter of fiscal year 2018, the Company adopted ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU No. 2016-09"). Please refer to Note 2, "New Accounting Pronouncements," for a discussion of the impact of ASU No. 2016-09.

In the first quarter of fiscal year 2018, the Company adopted ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU No. 2015-17"). Please refer to Note 2, "New Accounting Pronouncements," for a discussion of the impact of ASU No. 2015-17.

C. Use of Estimates. The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes thereto. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions and judgment that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

D. Subsequent Events. In preparing the accompanying Condensed Consolidated Financial Statements, the Company has reviewed events that have occurred after December 31, 2017 through the date of issuance of the Condensed Consolidated Financial Statements. During this period, the Company did not have any subsequent events for disclosure.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In the first quarter of fiscal year 2018, the Company adopted ASU No. 2016-09. ASU No. 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including presenting the excess tax benefit or deficit from the exercise or vesting of share-based payments in the income statement, classifying the excess tax benefit or deficit as an operating activity in the Condensed Consolidated Statements of Cash Flows rather than as a financing activity, a revision to the criteria for classifying an award as equity or liability and an option to recognize gross stock-based compensation expense with actual forfeitures recognized as they occur. In addition, ASU No. 2016-09 eliminates the excess tax benefit from the assumed proceeds calculation under the treasury stock method for purposes of calculating diluted shares.

As a result of this adoption, the Company recorded excess tax benefits related to stock-based compensation awards of $1.5 million and $3.0 million during the three and six months ended December 31, 2017 in the income tax provision on a prospective basis, whereas such benefits were previously recognized in equity. The Company also excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share for the three and six months ended December 31, 2017. The Company has not adjusted prior periods presented for the change in accounting for excess tax benefits in the Condensed Consolidated Financial Statements. The Company also elected to apply the change in presentation of excess tax benefits in the Condensed Consolidated Statement of Cash Flows prospectively, and as a result, excess tax benefits are classified as operating activities when realized through reductions to subsequent tax payments. This adoption resulted in an increase to net cash provided by operating activities and a corresponding decrease to net cash provided by financing activities of $3.0 million for the six months ended December 31, 2017. The Company has not adjusted prior periods presented for the change in classification of excess tax benefits on the Condensed Consolidated Statement of Cash Flows. The Company also elected to continue its current practice of estimating expected forfeitures as permitted by ASU No. 2016-09.

In the first quarter of fiscal year 2018, the Company adopted ASU No. 2015-17 on a prospective basis to all deferred tax liabilities and assets. The amendments in ASU No. 2015-17 require entities that present a classified balance sheet to classify all deferred tax liabilities and assets as a noncurrent amount. The Company's fiscal year 2017 Condensed Consolidated Balance Sheet has not been retrospectively adjusted for the adoption of ASU No. 2015-17.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Accounting for Goodwill Impairment" ("ASU No. 2017-04"). ASU No. 2017-04 removes Step 2 of the current goodwill impairment test, which currently requires a hypothetical purchase price allocation if the fair value of a reporting unit were to be less than its book value, for purposes of determining the amount of goodwill impaired. Under ASU No. 2017-04, the Company would now recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds the fair value of the reporting unit; however, the loss recognized would not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 will be effective for the Company beginning in the first quarter of fiscal 2021, to be applied on a prospective basis. The pending adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU No. 2017-01"). ASU No. 2017-01 narrows the definition of a business, in part by concluding that an integrated set of assets and activities (referred to as a "set") is not a business when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets. ASU No. 2017-01 is effective for the Company beginning in the first quarter of fiscal year 2019, to be applied on a prospective basis. The pending adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU No. 2016-02"). Under ASU No. 2016-02, all lease arrangements, with certain limited exceptions, exceeding a twelve-month term must now be recognized as assets and liabilities on the balance sheet of the lessee by recording a right-of-use asset and corresponding lease obligation generally equal to the present value of the future lease payments over the lease term. Further, the income statement will reflect lease expense for leases classified as operating and amortization/interest expense for leases classified as financing, determined using classification criteria substantially similar to the current lease guidance for distinguishing between an operating and capital lease. ASU No. 2016-02 also contains certain additional qualitative and quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. ASU No. 2016-02 is effective for the Company in the first quarter of fiscal year 2020 and will be adopted on a modified retrospective basis, which will require adjustment to all comparative periods presented in the consolidated financial statements. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-02 on the Company's Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU No. 2016-01"), which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. Under ASU No. 2016-01, changes in the fair value of publicly traded equity securities for which the Company does not have significant influence would be recorded as part of Net earnings rather than as Other comprehensive income (loss), net. In addition, equity investments that do not have a readily determinable fair value will be recorded at cost less impairment as further adjusted for observable price changes in orderly transactions for identical or similar investments of the issuer. ASU No. 2016-01 is effective for the Company beginning in the first quarter of fiscal year 2019. The guidance in ASU No. 2016-01 related to changes in fair value of publicly traded equity securities will be adopted by means of a cumulative-effect adjustment to the balance sheet as of the beginning of fiscal year 2019, while the guidance related to equity securities without readily determinable fair values will be adopted prospectively to equity investments that exist as of the beginning of fiscal year 2019. The pending adoption of ASU No. 2016-01 is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU No. 2014-09”), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 also requires certain enhanced disclosures, including disclosures on the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date," which defers the effective date of ASU No. 2014-09 by one year, with an option that would permit companies to adopt the standard as early as the original effective date. As a result, ASU No. 2014-09 will be effective for the Company as of the first quarter of fiscal year 2019 for which the Company plans to adopt ASU No. 2014-09 using the modified retrospective transition method with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application along with providing certain additional disclosures as defined per ASU No. 2014-09.

In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU No. 2016-08"), which provides clarifying implementation guidance to the principal versus agent provisions of ASU No. 2014-09.

In April 2016, the FASB issued ASU No. 2016-10 "Identifying Performance Obligations and Licensing" ("ASU No. 2016-10"), which provides clarifying implementation guidance for applying ASU No. 2014-09 with respect to identifying performance obligations and the accounting for licensing arrangements.

In May 2016, the FASB issued ASU No. 2016-12 "Narrow-Scope Improvements and Practical Expedients" ("ASU No. 2016-12"), which provides certain clarifying guidance for ASU No. 2014-09 relative to treatment of sales taxes, noncash consideration, collectibility and certain aspects of transitional guidance.

In December 2016, the FASB issued ASU No. 2016-20 "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which provides certain technical corrections for ASU No. 2014-09 including the impairment testing of capitalized contract costs, disclosure of remaining performance obligations, and certain other matters.

Each of ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20 have the same effective date as ASU No. 2014-09. While the Company is still in the process of evaluating the full impact of the pending adoption of ASU No. 2014-09 and related amendments on its Condensed Consolidated Financial Statements and related disclosures, including assessing the need for process changes or enhancements, the Company has identified certain expected impacts of the new standard on its Condensed Consolidated Financial Statements. Specifically, the Company expects to capitalize certain sales commissions, as well as capitalize certain additional costs that are part of setting up or converting a client's systems to function with the Company's technology, both of which are currently expensed. Additionally, the Company expects to recognize proxy revenue predominantly at the time of proxy distribution to the client's shareholders rather than on the date of the client's shareholder meeting, which is typically 30 days after the proxy distribution. Other expected changes to the timing of revenue recognition include deferral of revenue from certain transaction processing platform enhancements as well as acceleration of revenue from certain multi-year software license arrangements that are currently recognized over the term of the software subscription. While the annual impact of the new revenue guidance to the Company's income statement could vary year to year, the annual income statement impact of the new revenue guidance is estimated to be less than 1% of the Company's fiscal year 2017 revenues and approximately 2% of the Company's fiscal year 2017 earnings before income taxes. Also, the Company currently estimates the cumulative impact to opening retained earnings of adopting the new revenue guidance will be less than $100 million, driven primarily by an increase in capitalized costs.

NOTE 3. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing the Company’s Net earnings by the basic Weighted-average shares outstanding for the periods presented. The Company calculates diluted EPS using the treasury stock method, which reflects the potential dilution that could occur if outstanding stock options at the presented date are exercised and restricted stock unit awards have vested.

The computation of diluted EPS excluded options of 0.1 million to purchase Broadridge common stock for the three months ended December 31, 2017, and options of 0.1 million to purchase Broadridge common stock for the six months ended December 31, 2017, as the effect of their inclusion would have been anti-dilutive.

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The computation of diluted EPS excluded options of less than 0.1 million to purchase Broadridge common stock for the three months ended December 31, 2016, and options of less than 0.1 million to purchase Broadridge common stock for the six months ended December 31, 2016, as the effect of their inclusion would have been anti-dilutive.
The following table sets forth the denominators of the basic and diluted EPS computations (in millions):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Weighted-average shares outstanding:				
Basic	116.6	118.7	116.5	118.6
Common stock equivalents	3.8	2.8	3.5	3.0
Diluted (1)	120.3	121.5	120.1	121.5

(1) On July 1, 2017, the Company adopted ASU No. 2016-09. See Note 2, "New Accounting Pronouncements," for additional information related to adoption of this standard.

NOTE 4. INTEREST EXPENSE, NET

Interest expense, net consisted of the following:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
	(in millions)			
Interest expense on borrowings	$10.8	$11.0	$20.8	$21.7
Interest income	(0.6)	(0.3)	(1.2)	(0.7)
Interest expense, net	$10.2	$10.6	$19.6	$21.0

NOTE 5. OTHER NON-OPERATING (INCOME) EXPENSES, NET

Other non-operating (income) expenses, net consisted of the following:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
	(in millions)			
Losses from equity method investments	$1.5	$1.9	$2.4	$3.8
Foreign currency exchange (gain) loss	—	0.6	(0.3)	2.9
Other non-operating (income) expenses, net	$1.4	$2.5	$2.1	$6.7

NOTE 6. ACQUISITIONS

BUSINESS COMBINATIONS

Assets acquired and liabilities assumed in business combinations are recorded on the Company's Condensed Consolidated Balance Sheets as of the respective acquisition date based upon the estimated fair values at such date. The results of operations of the business acquired by the Company are included in the Company's Condensed

Consolidated Statements of Earnings since the respective date of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed is allocated to Goodwill. Certain of our acquisitions may contain contingent consideration liabilities based upon the achievement of certain individually defined financial targets of the acquired business. These contingent consideration liabilities are measured at fair value based upon management’s expectations of future achievement by the acquired business of these individual financial targets.

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During the second quarter of fiscal year 2018, the Company acquired one business in the Investor Communication Solutions segment:

Summit

In October 2017, the Company completed the acquisition of Summit, a full service financial document management solutions provider, including document composition and regulatory filing services. The aggregate purchase price was $30.6 million in cash, consisting of $26.4 million in cash payments net of cash acquired, a $1.4 million note payable to the sellers that will be settled in the future, and a contingent consideration liability with an acquisition date fair value of $2.7 million. The contingent consideration liability is payable over the next three years upon the achievement by the acquired business of certain revenue and earnings targets. The contingent consideration liability has a maximum potential pay-out of $11.0 million upon the achievement in full of the defined financial targets by the acquired business. Net tangible assets acquired in the transaction were $0.6 million. This acquisition resulted in $18.1 million of Goodwill, which is primarily tax deductible. Intangible assets acquired, which totaled $12.0 million, consist primarily of software technology and customer relationships, which are being amortized over a five-year life and seven-year life, respectively. The allocation of the purchase price will be finalized upon completion of the analysis of the fair values of the acquired business' assets and liabilities, which is still subject to a working capital adjustment.

ASSET ACQUISITIONS

Purchase of Intellectual Property

In September 2016, the Company's Investor Communication Solutions segment acquired intellectual property assets from Inveshare, Inc. ("Inveshare") and concurrently entered into a development agreement with an affiliate of Inveshare to use these assets to develop blockchain technology applications for Broadridge's proxy business. The purchase price was $95.0 million, which consisted of a $90.0 million cash payment upon closing of the acquisition and a $5.0 million obligation which the Company paid during the three months ended September 30, 2017.

The Company also expects to pay a deferred payment of $40.0 million to an affiliate of Inveshare upon delivery of the new blockchain technology applications in February 2018.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1	Quoted market prices in active markets for identical assets and liabilities.
Level 2	Observable market-based inputs other than quoted prices in active markets for identical assets and liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company calculates the fair value of its Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments where available or based on other observable instruments. These calculations take into consideration the credit risk of both the Company and its counterparties. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The Company holds available-for-sale securities issued by a non-public entity for which the lowest level of significant inputs is unobservable. On a recurring basis, the Company uses pricing models and similar techniques for which the determination of fair value requires significant judgment by management. Accordingly, the Company classifies the available-for-sale securities as Level 3 in the table below.

The fair values of the contingent consideration obligations are based on a probability weighted approach derived from the estimates of earn-out criteria and the probability assessment with respect to the likelihood of achieving those criteria. The measurement is based on significant inputs that are not observable in the market, therefore, the Company classifies this

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liability as Level 3 in the table below.

The following tables set forth the Company's financial assets and liabilities at December 31, 2017 and June 30, 2017, respectively, that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$158.6	$—	$ —	$158.6
Other current assets:				
Available-for-sale securities	0.1	—	—	0.1
Other non-current assets:				
Available-for-sale securities	63.1	—	1.1	64.2
Total assets as of December 31, 2017	$221.9	$—	$ 1.1	$223.0
Liabilities:		$ (39)	(14)%	
% of Revenue		1%		

The decreases in amortization of other purchased intangibles in both absolute dollars and as a percentage of total revenues for the first quarter of fiscal year 2006 was due to the fact that we fully amortized the other intangibles associated with our acquisitions of Tidestone and Nimble Technology by the second and third quarter of fiscal year 2005, respectively. These reductions were offset by increases in amortization costs of $237,000 related to our acquisition of performancesoft in January of fiscal year 2006.

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Purchased in-process research and development

During the quarter ended March 31, 2006 and in connection with the acquisition of performancesoft, we recorded a charge to operations of $900,000 for purchased in-process research and development. The purchased in-process research and development was expensed because it had not reached technological feasibility and had no alternative future uses. The value of the purchased in-process research and development was computed using the excess earnings approach analysis, which is based on the theory that all assets must contribute to the profitability of an enterprise. We determined the valuation of the purchased in-process research and development with the assistance of an independent third party.

Interest and other income (expense), net

	Three Months Ended (In thousands) March 31,		Variance	Variance
	2006	2005	$ s	%
Interest and other income (expense), net	$ 335	$ 384	$ (49)	(13)%
% of Revenue	1%	2%		

Interest and other income (expense), net is comprised primarily of interest income earned by the Company on cash and short-term investments. Interest income increased by approximately $130,000 during the first quarter of fiscal year 2006 compared to the same period last year due primarily to a higher weighted average interest rate on our investments. This higher rate generated greater interest income despite the $16.2 million cash outlay for the acquisition of performancesoft. Prior year interest and other income includes $130,000 of non-recurring gains in one of our international subsidiaries.

Provision for income taxes

	Three Months Ended (In thousands) March 31,		Variance	Variance
	2006	2005	$ s	%
Provision for income taxes	$ 449	$ 193	$ 256	132%
% of Revenue	2%	1%		

For the three months ended March 31, 2006, we recorded an income tax provision of $449,000, as compared to an income tax provision of $193,000 for the same period of fiscal year 2005. The increase in the income tax provision for the first quarter of fiscal year 2006 as compared to the first quarter of fiscal year 2005 is due to higher projected domestic net income in 2006 and a higher effective tax rate for the quarter as a result of adopting SFAS 123R as of January 1, 2006. In addition, we experienced higher profit before tax due to the write off of purchased in-process research and development costs of $900,000 associated with the acquisition of performancesoft treated as a discrete event.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical tax losses, management believes it is more likely than not that the Company will not realize a majority of the benefits of these deductible differences. Therefore, a valuation allowance has been established to offset the deferred tax assets where these benefits may not be realized. We continue to closely monitor the available evidence, both positive and negative, and may release portions of the valuation allowance in future periods.

The Company s ability to utilize the net operating losses and tax credit carry forwards in the future may be subject to an annual limitation in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code and similar state tax laws. The annual limitation may result in the expiration of net operating losses and tax credits before utilization.

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Liquidity and Capital Resources

Our sources of cash, cash equivalents and short-term investments are funds generated from our business operations and funds that may be drawn down under our credit facility.

As of March 31, 2006, we had cash, cash equivalents and short-term investments of $42.2 million, a decrease of approximately $12.2 million from $54.4 million at December 31, 2005. We also had $23.1 million in net working capital as of March 31, 2006, representing a decrease of approximately $15.8 million from $38.9 million at December 31, 2005.

Net cash provided by operating activities in the current quarter was $4.7 million, resulting from a net loss of $470,000, adjusted for non-cash charges, including $920,000 of depreciation and amortization, $1.6 million in stock-based compensation, purchased in-process research and development of $900,000 related to our acquisition of performancesoft, net cash collections of accounts receivable of $6.1 million, offset by a total of $4.3 million decrease in accounts payable, accrued and other associated liabilities, mainly due to payments made during the quarter.

Our primary source of operating cash flows is the collection of accounts receivable from our customers, including maintenance which is typically billed annually in advance. During the first quarter of fiscal year 2006 our cash flows were impacted significantly due to the acquisition of performancesoft. The net impact was approximately $15.3 million and was comprised of $15.6 million purchase price, net of $337,000 of cash on hand by performancesoft at the time of acquisition. Our operating cash flows are also impacted by the timing of payments to our vendors for accounts payable. We generally pay our vendors and service providers in accordance with the invoice terms and conditions. The timing of cash payments in future periods will be impacted by the terms of accounts payable arrangements and the timing of our cash inflows.

Cash used in investing activities was $3.6 million for the three months ended March 31, 2006 compared to approximately $2.0 million provided by for the same period in fiscal 2005. The primary driver for the decrease in cash during the first quarter of fiscal year 2006 was the acquisition of performancesoft which resulted in a net cash payment of approximately $16.2 million. Due to this acquisition, we liquidated our investments by a total of approximately $13.2 to accommodate the funding of this transaction. In addition, during February 2006, a minority shareholder of Actuate Japan notified us that it wished to exercise its rights to put its equity interest in Actuate Japan and as a result we paid approximately $354,000 for this minority interest during the first quarter of 2006.

Cash used in financing activities was $74,000 for the three months ended March 31, 2006 compared to $386,000 used for the same period in fiscal year 2005. This decrease in cash used was primarily the result of lower proceeds from the issuance of common stock in fiscal year 2006, offset by lower level of stock repurchases. During the first three months of fiscal year 2006, we spent approximately $990,000 cash to repurchase 289,000 shares of common stock in the open market, while during the same period last year we spent approximately $1.5 million to repurchase approximately 566,000 shares of common stock.

We believe that our current cash balances and cash generated from operations will be sufficient to meet our working capital and capital expenditures 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, draw down under our existing credit facility 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 78% owned subsidiary in Japan, or complementary products or to obtain the right to use complementary technologies.

Contractual Obligations and Commercial Commitments.

The following table summarizes our contractual obligations as of March 31, 2006 (in thousands):

	Total	Less than 1 year	1 3 years	3 5 years	Thereafter
Obligations:					
Operating lease (1)	$ 21,801	$ 5,629	$ 8,666	$ 7,024	$ 482
Purchase obligations (2)	2,495	2,495			
Total	$ 24,296	$ 8,124	$ 8,666	$ 7,024	$ 482

(1) Our future contractual obligations include minimum lease payments under operating leases at March 31, 2006, net of contractual sublease proceeds.

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(2) Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the ordinary course of business for which we have not received the goods or services as of March 31, 2006. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

Of the remaining net future minimum lease payments, approximately $11.7 million is included in restructuring liabilities on the Company s consolidated balance sheet as of March 31, 2006.

In connection with the office building leases in South San Francisco, California, we initially provided the landlord with letters of credit in the amount of $3.9 million as a security deposit. We have provided a security interest in all of our assets as collateral for the letter of credit. These letters of credit have been reduced at pre-determined intervals. As of March 31, 2006 the amounts remaining under these letters of credit total of approximately $900,000.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk. During the first three months of fiscal years 2006 and 2005 we derived 23% and 25%, respectively, of our total revenues from sales outside of North America. We face exposure to market risk on these receivables with respect to fluctuations in the relative value of currencies. Our international revenues and expenses are denominated in foreign currencies, principally the Euro and the British Pound Sterling. 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 gains due to foreign exchange rate fluctuations were approximately $21,000 for the first three months of fiscal 2005 compared to gains of approximately $19,000 during the same period last year.

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 no material risk exposure.

Credit Risk. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities, trade accounts receivable. We have policies that limit investments in investment grade securities and the amount of credit exposure to any one issuer. 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 client receivables. Our credit risk is also mitigated because our customer base is diversified by geography and no single customer has accounted for more than 10% of our consolidated revenue on an annual basis. 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control. Subject to these limitations, and based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Actuate files and submits under the Exchange Act are recorded, processed, summarized and reported as and when required.

Changes in Internal Controls

There were no changes in Actuate s internal control over financial reporting during the three months ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, Actuate s internal control over financial reporting.

In January 2006, the Company acquired all of the outstanding shares of capital stock of performancesoft, Inc., a privately-held entity headquartered in Toronto, Canada. It is expected that, prior to December 31, 2006, the Company will institute changes to performancesoft s internal controls over financial reporting. These changes are expected to align performancesoft s internal controls over financial reporting with the Company s controls over financial reporting.

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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.

Item 1A. Risk Factors

Investors should carefully consider the following risk factors and warnings before making an investment decision, as well as the risks described in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005. The risks described below and in our Annual Report 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 materially impair our business operations. If any of the following risks, currently unknown risks, or currently known risks that are mistakenly believed to be immaterial, 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 Quarterly Report on Form 10-Q, including the financial statements and the notes thereto.

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

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

- Demand for its products;
- The size and timing of significant orders for its products;
- A slowdown or a decrease in spending on information technology by its current and/or prospective customers;
- The marketing by its competitors of products that are directly competitive with its products;
- The management, performance and expansion of its international operations;
- Foreign currency exchange rate fluctuations;
- Customers desire to consolidate their purchases of enterprise reporting and business intelligence software to one or a very small number of vendors from which a customer has already purchased software;
- General domestic and international economic and political conditions, including war, terrorism, and the threat of war or terrorism;

Sales cycles and sales performance of its indirect channel partners;

Changes in the way it and its competitors price their respective products and services, including maintenance and transfer fees;

Continued successful relationships and the establishment of new relationships with OEMs;

Changes in its level of operating expenses and its ability to control costs;

The outcome or publicity surrounding any pending or threatened lawsuits;

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

- Budgeting cycles of its customers;
- Failure to successfully manage its acquisitions;
- Defects in its products and other product quality problems;
- Failure to successfully meet hiring needs and unexpected personnel changes;
- Changes in the market segments and types of customers at which it focuses its sales and marketing efforts;
- Lost revenue due to the availability of open-source products of the Company and its competitors;
- Changes in perpetual licensing models to term- or subscription-based models with respect to which license revenue is not fully recognizable at the time of initial sale; and
- Changes in service models with respect to which consulting services are performed on a fixed-fee, rather than variable fee, basis.

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

- Whether the license agreement includes both software products that are then currently available and software products or other enhancements that are still under development;
- Whether the license agreement relates entirely or partly to software products that are currently not available;
- Whether the license agreement requires the performance of services that may preclude revenue recognition until successful completion of such services;
- Whether the license agreement includes acceptance criteria that may preclude revenue recognition prior to customer acceptance; and
- Whether the license agreement includes undelivered elements (including limited terms or durations) that may preclude revenue recognition prior to customer acceptance.

In addition, the Company may in the future experience fluctuations in its gross and operating margins due to changes in the mix of its domestic and international revenues, changes in the mix of its direct sales and indirect sales and changes in the mix of license revenues and service revenues, as well as changes in the mix among the indirect channels through which its products are offered.

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

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

Based upon all of the factors described above, the Company has a limited ability to forecast the amount and mix of future revenues and expenses and it is likely that in some future quarter, the Company s operating results will be below its estimates or the expectations of public market analysts and investors. In the event that operating results are below its estimates or other expectations, the price of the Company s common stock could decline.

THE COMPANY HAS MADE, AND MAY IN THE FUTURE MAKE, ACQUISITIONS, WHICH INVOLVE NUMEROUS RISKS.

The Company s business is highly competitive, and as such, its growth is dependent upon market growth and its ability to enhance its existing products, introduce new products on a timely basis and expand its distribution channels and

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professional services organization. One of the ways the Company has addressed and will continue to address these issues is through acquisitions of other companies. On January 5, 2006, the Company purchased all of the outstanding capital stock of performancesoft, Inc., a privately held company located in Toronto, Canada (performancesoft).

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

- The Company s ability to maintain or achieve performancesoft revenue growth or to anticipate a decline in performancesoft revenue from any of its products or services;
- The Company s ability to develop and introduce performancesoft products and enhancements that respond to its customer requirements and rapid technological change;
- The Company s ability to maintain or select and implement appropriate business models and strategies within performancesoft;
- The risks inherent in international operations, such as currency exchange rate fluctuations and economic and political conditions in Canada;
- The performancesoft transaction was completed without the benefit of audited financial statements from performancesoft;
- The performancesoft stock purchase agreement includes large escrow ($2.65 million) and earnout or contingent consideration (up to $13.5 million) provisions that could be the subject of disputes between the Company and certain former performancesoft shareholders; and
- The performancesoft stock purchase agreement includes a covenant whereby the Company has agreed to keep the performancesoft subsidiary separate through fiscal 2006.

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

- The benefits of the acquisition not materializing as planned or not materializing within the time periods or to the extent anticipated;
- The Company s ability to manage acquired entities people and processes that are headquartered in separate geographical locations from the Company s headquarters;
- The possibility that the Company will pay more than the value it derives from the acquisition;
- Difficulties in integration of the operations, technologies, and products of the acquired companies;
- The assumption of certain known and unknown liabilities of the acquired companies;

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

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

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

Negative impact to the Company s financial condition and results of operations and the potential write down of impaired goodwill and intangible assets resulting from combining the acquired company s financial condition and results of operations with its financial statements;

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

The potential loss of key employees of the acquired company.

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

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

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

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

The Company s total revenues derived from sales outside North America were 23%, 25% and 24% for the first quarter of fiscal years 2006, 2005 and 2004, respectively. Its ability to achieve revenue growth in the future will depend in large part on its success in increasing revenues from international sales. The Company intends to continue to invest significant resources to expand its sales and support operations outside North America and to enter additional international markets. In order to expand international sales, the Company must establish additional foreign operations, expand its international channel management and support organizations, hire additional personnel, recruit additional international resellers and increase the productivity of existing international resellers. If it is not successful in expanding international operations in a timely and cost-effective manner, the Company s business, operating results and financial condition could be harmed.

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

To date, the Company has sold its products principally through our direct sales force, as well as through indirect sales channels, such as its OEMs, resellers and systems integrators. The Company s revenues from license fees resulting from sales through indirect channel partners were approximately 35%, 27%, and 24% for the first quarter of fiscal years 2006, 2005 and 2004, respectively. The Company s ability to achieve significant revenue growth in the future will depend in large part on the success of its sales force in further establishing and maintaining relationships with indirect channel partners. In particular, a significant element of the Company s strategy is to embed its technology in products offered by OEMs for resale or as a hosted application to such OEMs customers and end-users. The Company also intends to establish and expand its relationships with resellers and systems integrators so that such resellers and systems integrators will increasingly recommend its products to their clients. The Company s future success will depend on the ability of its indirect channel partners to sell and support its products. If the sales and implementation cycles of its indirect channel partners are lengthy or variable or its OEMs experience difficulties embedding its technology into their products or it fails to train the sales and customer support personnel of such indirect channel partners in a timely or effective fashion, the Company s business, operating results and financial condition would be harmed.

Although the Company is currently investing, and plans to continue to invest, significant resources to expand and develop relationships with OEMs, it has at times experienced and continues to experience difficulty in establishing and maintaining these relationships. If the Company is unable to successfully expand this distribution channel and secure license agreements with additional OEMs on commercially reasonable terms, including significant up-front payments of minimum license fees, and extend existing license agreements with existing OEMs on commercially reasonable terms, the Company s operating results would be harmed. Any inability by the Company to maintain existing or establish new relationships with

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indirect channel partners, including systems integrators and resellers, or, if such efforts are successful, a failure of the Company s revenues to increase correspondingly with expenses incurred in pursuing such relationships, would harm the Company s business, operating results and financial condition.

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

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

- Competition from current or future business intelligence software vendors such as Business Objects, Cognos, Hyperion, Information Builders, and MicroStrategy, each of which offers enterprise reporting products;

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

- Competition from other software vendors and software development tool vendors including providers of open-source software products; and

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

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

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

IF THE MARKET FOR ENTERPRISE REPORTING AND PERFORMANCE MANAGEMENT APPLICATION SOFTWARE DOES NOT GROW AS THE COMPANY EXPECTS, ITS BUSINESS WOULD BE SERIOUSLY HARMED.

The market for Enterprise Reporting and Performance Management Application software products is still emerging and the Company cannot be certain that such market will continue to grow or that, even if the market does grow, businesses will

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purchase the Company s products. If the market for Enterprise Reporting and Performance Management Application software products fails to grow or grows more slowly than the Company expects, its business, operating results and financial condition would be harmed. To date, all of the Company s revenues have been derived from licenses for its enterprise reporting software and related products and services, and it expects this to continue for the foreseeable future. The Company has spent, and intends to continue to spend, considerable resources educating potential customers and indirect channel partners about Enterprise Reporting and Performance Management Applications and its products. However, if such expenditures do not enable its products to achieve any significant degree of market acceptance, the Company s business, operating results and financial condition would be harmed.

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

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

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), the Company s management is required to report on, and its independent auditors are required to attest to, the effectiveness of the Company s internal controls over financial reporting on an ongoing basis. The Company s assessment, testing and evaluation of the design and operating

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effectiveness of its internal control over financial reporting are ongoing. The Company identified one material weakness, which was disclosed in Section 9A of the Company s Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on March 16, 2005, as amended by Form 10-K/A filed with the Securities and Exchange Commission on May 2, 2005. The Company cannot predict the outcome of its testing in future periods. If in future periods the Company concludes that its internal control over financial reporting is not effective, it may be required to change its internal control over financial reporting to remediate deficiencies, and investors may lose confidence in the reliability of its financial statements, causing the Company s stock price to decline.

SECTION 404 AND OTHER RECENTLY ENACTED REGULATORY CHANGES HAVE CAUSED THE COMPANY TO INCUR INCREASED COSTS AND OPERATING EXPENSES AND MAY MAKE IT MORE DIFFICULT FOR THE COMPANY TO ATTRACT AND RETAIN QUALIFIED OFFICERS AND DIRECTORS.

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

Any acquisitions made by the Company will also put a significant strain on its management, information systems and resources. In addition, any expansion of the Company s international operations will lead to increased financial and administrative demands associated with managing its international operations and managing an increasing number of relationships with foreign partners and customers and expanded treasury functions to manage foreign currency risks, all of which will require implementation of any changes necessary to maintain effective internal controls over financial reporting.

Any failure to satisfy the new rules could make it more difficult for the Company to obtain certain types of insurance, including director and officer liability insurance, and it may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. Alternatively, the Company may determine that it should reduce its director and officer liability insurance policy limits. The impact of any of these events could also make it more difficult for the Company to attract and retain qualified persons to serve on its board of directors, or as executive officers.

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

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

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

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

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

The Company has developed a Business Intelligence Reporting Tools (BIRT) open source code project as part of the Eclipse open source code foundation. The Company hopes that BIRT and a commercialized version of BIRT will be widely adopted by Java developers and will result in such developers recommending to their companies that they license the Company s commercially available products. If BIRT does not achieve market acceptance and result in promoting sales of commercially available products, the Company s business, operating results and financial condition may be harmed.

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

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

THE COMPANY S INTERNATIONAL OPERATIONS ARE SUBJECT TO SIGNIFICANT RISKS.

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

- Economic and political instability, including war and terrorism or the threat of war and terrorism;
- Difficulty in managing an organization spread across many countries;
- Multiple and conflicting tax laws and regulations;
- Costs of localizing products for foreign countries;

- Difficulty in hiring employees and difficulties and high costs associated with terminating employees and restructuring operations in foreign countries;
- Trade laws and business practices favoring local competition;
- Dependence on local vendors;
- Compliance with multiple, conflicting and changing government laws and regulations;
- Weaker intellectual property protection in foreign countries and potential loss of proprietary information due to piracy or misappropriation;
- Longer sales cycles;
- Import and export restrictions and tariffs;
- Difficulties in staffing and managing foreign operations;
- The significant presence of some of our competitors in certain international markets;
- Greater difficulty or delay in accounts receivable collection; and
- Foreign currency exchange rate fluctuations.

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

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

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

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

CHANGES IN, OR INTERPRETATIONS OF, ACCOUNTING RULES AND REGULATIONS COULD RESULT IN UNFAVORABLE ACCOUNTING CHARGES.

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles are subject to interpretation by the Securities and Exchange Commission (the SEC) and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on the Company s reported results and may even retroactively affect previously reported transactions. The Company s accounting policies that recently have been or may be affected by changes in the accounting rules are as follows:

- Software revenue recognition;
- Accounting for income taxes;
- Accounting for business combinations and related goodwill; and
- Accounting for stock issued to employees.

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

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

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

The Company s revenues are difficult to forecast and are likely to fluctuate significantly from period to period. The Company bases its operating expense budgets on expected revenue trends. The Company s estimates of sales trends may not correlate with actual revenues in a particular quarter or over a longer period of time. Variations in the rate and timing of conversion of the Company s sales prospects into actual licensing revenues could cause it to plan or budget inaccurately and those variations could adversely affect the Company s financial results. In particular, delays, reductions in amount or cancellation of customers purchases would adversely affect the overall level and timing of the Company s revenues and its business, results of operations and financial condition could be harmed. In addition, many of its expenses, such as office and

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equipment leases and certain personnel costs, are relatively fixed. It may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any period.

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

Software products as complex as those offered by the Company often contain errors or defects, particularly when first introduced, when new versions or enhancements are released and when configured to individual customer computing systems. The Company currently has known errors and defects in its products. Despite testing conducted by the Company, if additional defects and errors are found in current versions, new versions or enhancements of its products after commencement of commercial shipment, this could result in the loss of revenues or a delay in market acceptance. The occurrence of any of these events could seriously harm the Company s business, operating results and financial condition.

THE COMPANY MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS.

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

THE PROTECTION OF OUR PROPRIETARY RIGHTS MAY BE INADEQUATE.

The Company has a small number of issued and pending U.S. patents expiring at varying times ranging from 2015 to 2019. The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary technology. For example, the Company licenses its software pursuant to shrink- or click-wrap or signed license agreements that impose certain restrictions on licensees ability to utilize the software. In addition, the Company seeks to avoid disclosure of its intellectual property, including by requiring those persons with access to its proprietary information to execute confidentiality agreements with the Company and by restricting access to its source code. The Company takes precautions to protect our software, certain documentation, and other written materials under trade secret and copyright laws, which afford only limited protection.

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

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

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

- Actual or anticipated fluctuations in its operating results;

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

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

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

Developments in ongoing or threatened litigation;

Announcements of technological innovations;

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

New products or new contracts announced by it or its competitors;

Developments with respect to copyrights or proprietary rights;

Price and volume fluctuations in the stock market;

Changes in corporate purchasing of Enterprise Reporting Application software;

Adoption of new accounting standards affecting the software industry (including stock option-expensing roles); and

Changes in financial estimates by securities analysts.

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

CHANGES IN TAX RATES OR NEGATIVE TAX RULINGS COULD ADVERSELY IMPACT THE COMPANY S FINANCIAL RESULTS.

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

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

The Company s Certificate of Incorporation, as amended and restated (the Certificate of Incorporation), and Bylaws, as amended and restated (Bylaws), contain certain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals that a stockholder might consider favorable, including provisions authorizing the issuance of blank check preferred stock and eliminating the ability of stockholders to act by written consent. In addition, certain provisions of Delaware law and the

Company s stock option plans may also have the effect of discouraging, delaying or preventing a change in control or unsolicited acquisition proposals. The anti-takeover effect of these provisions may also have an adverse effect on the public trading price of the Company s common stock

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information regarding repurchases of Actuate common stock by Actuate during the three months ended March 31, 2006.

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs (1)	Maximum dollar value of shares that may yet be purchased under the program (1)
Month #1				
January 1, 2006 through January 31, 2006				
Month #2				
February 1, 2006 through February 28, 2006	289,000	$ 3.39	289,000	
Month #3				
March 1, 2006 through March 31, 2006				
Total	289,000	$ 3.39	289,000	

(1) On September 19, 2001, the Company s Board of Directors authorized a stock repurchase program of up to $6.0 million of our common stock. On October 24, 2002 and April 28, 2004 Actuate s Board of Directors extended the stock repurchase program by authorizing the management to repurchase up to an additional $3.0 million and $1.5 million worth of Company s common stock, respectively. On July 28, 2004, the Company s Board of Directors authorized management to repurchase, on an on-going basis, up to $1.5 million Actuate common stock each calendar quarter. During the fourth quarter of 2004, the Board of Directors suspended the repurchase program.

In January 2005, pursuant to the stock repurchase program announced in September 2001, and extended from time to time by the Company s Board of Directors, the Board of Directors approved an on-going extension of the Company s stock repurchase program. This was further confirmed in April 2005, July 2005 and October 2005 when the Board of Directors authorized management to proceed with the repurchases. The Company is authorized to repurchase Actuate common stock in an amount not to exceed cash flow from operations during the prior quarter, with the actual amount to be approved in advance by the Board. Since January 1, 2005, the Company repurchased a total of 3.3 million shares of the Company s common stock, totaling approximately $8.1 million.

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer

32.1 Section 1350 Certifications

Signature

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

Actuate Corporation

(Registrant)

Dated: May 10, 2006

By: /s/ DANIEL A. GAUDREAU
Daniel A. Gaudreau

Chief Financial Officer, Senior Vice

President of Finance (Principal Financial

and Accounting Officer)