ACTUATE CORP
Form 10-Q
August 07, 2014
Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**For the transition period from _____ to _____**

**Commission File No. 0-24607**

**Actuate Corporation**

**(Exact name of Registrant as specified in its charter)**

| **Delaware** | **94-3193197** |
|---|---|
| **(State of incorporation)** | **(I.R.S. Employer** |
| | **Identification No.)** |

**951 Mariners Island Boulevard,**

**San Mateo, California 94404**

**(650) 645-3000**

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

**Former name, former address and former fiscal year, if changed since last report:**

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 (§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 definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

| **Title of Class** | **Outstanding as of July 31, 2014** |
|---|---|
| Common Stock, par value $0.001 per share | 46,367,938 |

Table of Contents

**Actuate Corporation**

**Table of Contents**


**PART I FINANCIAL INFORMATION**

| | | |
|---|---|---|
| Item 1. | Financial Statements | 3 |
| | Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 | 3 |
| | Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013 | 4 |
| | Condensed Consolidated Statements of Comprehensive (loss) Income for the three and six months ended June 30, 2014 and 2013 | 5 |
| | Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 | 6 |
| | Notes to Condensed Consolidated Financial Statements | 7 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 37 |
| Item 4. | Controls and Procedures | 38 |

**PART II OTHER INFORMATION**

| | | |
|---|---|---|
| Item 1. | Legal Proceedings | 38 |
| Item 1A. | Risk Factors | 38 |
| Item 2. | Unregistered Sales of Equity Securities and Proceeds | 52 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 52 |
| Item 6. | Exhibits | 53 |
| Signatures | | 54 |

Table of Contents

## Part I. Financial Information

### Item 1. Financial Statements

**ACTUATE CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share and per share data)**

**(unaudited)**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 29,601 | $ 41,750 |
| Short-term investments | 29,822 | 38,150 |
| Accounts receivable, net of allowances of $165 and $418 at June 30, 2014 and December 31, 2013, respectively | 16,217 | 27,418 |
| Other current assets | 9,617 | 8,251 |
| Total current assets | 85,257 | 115,569 |
| Property and equipment, net | 5,241 | 6,119 |
| Goodwill | 56,392 | 51,962 |
| Purchased intangibles, net | 11,479 | 8,588 |
| Non-current deferred tax assets, net | 12,834 | 13,019 |
| Other assets | 928 | 824 |
| | $ 172,131 | $ 196,081 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Notes payable | $ 157 | $ |
| Accounts payable | 1,051 | 1,586 |
| Current portion of restructuring liabilities | 183 | 262 |
| Accrued compensation | 5,457 | 5,795 |
| Other accrued liabilities | 6,027 | 5,420 |
| Deferred revenue | 38,204 | 46,293 |
| Total current liabilities | 51,079 | 59,356 |
| Long-term liabilities: | | |
| Notes payable | 268 | 889 |
| Other liabilities | 3,096 | 3,177 |

| | | |
|---|---|---|
| Long-term deferred revenue | 1,050 | 1,640 |
| Long-term income taxes payable | 2,381 | 2,177 |
| Total long-term liabilities | 6,795 | 7,883 |
| Stockholders equity: | | |
| Preferred stock, $0.001 par value, issuable in series; 5,000,000 shares authorized; none issued or outstanding | | |
| Common stock, $0.001 par value, 100,000,000 shares authorized; issued 91,102,175 and 92,286,427 shares, respectively; outstanding 46,086,570 and 47,710,244 shares, respectively | 46 | 48 |
| Additional paid-in capital | 261,011 | 260,060 |
| Treasury stock, at cost; 45,015,605 and 44,576,183 shares, respectively | (207,574) | (198,531) |
| Accumulated other comprehensive income | 1,695 | 2,204 |
| Retained earnings | 59,079 | 65,061 |
| Total stockholders equity | 114,257 | 128,842 |
| | $ 172,131 | $ 196,081 |

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

Table of Contents

**ACTUATE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per share data)**

**(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| License fees | $ 7,335 | $ 16,155 | $ 13,553 | $ 31,635 |
| Services | 19,178 | 18,747 | 37,046 | 38,185 |
| Total revenues | 26,513 | 34,902 | 50,599 | 69,820 |
| Costs and expenses: | | | | |
| Cost of license fees | 512 | 551 | 996 | 1,124 |
| Cost of services | 3,869 | 4,431 | 7,436 | 9,414 |
| Sales and marketing | 11,538 | 14,316 | 22,901 | 28,090 |
| Research and development | 6,218 | 6,382 | 13,279 | 12,942 |
| General and administrative | 6,344 | 6,168 | 12,037 | 12,048 |
| Amortization of other purchased intangibles | 364 | 301 | 707 | 564 |
| Restructuring charges | 201 | 523 | 307 | 591 |
| Total costs and expenses | 29,046 | 32,672 | 57,663 | 64,773 |
| (Loss) Income from operations | (2,533) | 2,230 | (7,064) | 5,047 |
| Interest income and other income/(expense), net | 401 | 17 | 315 | 317 |
| Interest expense | (15) | (60) | (28) | (120) |
| (Loss) Income before income taxes | (2,147) | 2,187 | (6,777) | 5,244 |
| Provision for (benefits from) income taxes | 185 | 874 | (1,075) | 912 |
| Net (loss) income | $ (2,332) | $ 1,313 | $ (5,702) | $ 4,332 |
| Basic net (loss) income per share | $ (0.05) | $ 0.03 | $ (0.12) | $ 0.09 |
| Shares used in basic net (loss) income per share calculation | 46,692 | 47,781 | 47,224 | 47,980 |
| Diluted net (loss) income per share | $ (0.05) | $ 0.03 | $ (0.12) | $ 0.09 |
| Shares used in diluted net (loss) income per share calculation | 46,692 | 50,471 | 47,224 | 50,593 |

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

Table of Contents

**ACTUATE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**(in thousands, unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) income | $ (2,332) | $ 1,313 | $ (5,702) | $ 4,332 |
| Other comprehensive income/(loss), before tax: | | | | |
| Foreign currency translation | $ (533) | $ (250) | $ (523) | $ (1,585) |
| Net unrealized gain (loss) on securities | 3 | (55) | 14 | (79) |
| Total comprehensive (loss) income | $ (2,862) | $ 1,008 | $ (6,211) | $ 2,668 |

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

Table of Contents

**ACTUATE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands, unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| **Operating activities** | | |
| Net (loss) income | $ (5,702) | $ 4,332 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Share-based compensation expense | 3,325 | 4,091 |
| Excess tax benefit from exercise of stock options | (82) | (814) |
| Amortization of other purchased intangibles | 1,537 | 1,274 |
| Amortization of debt issuance cost | 10 | 40 |
| Bad debt expense | (103) | (114) |
| Write-off of unamortized debt issuance costs | | 188 |
| Depreciation | 962 | 1,085 |
| Change in valuation allowance on deferred tax assets | 230 | (89) |
| Impairments and write-offs | 66 | 155 |
| Gain on liquidation of subsidiary | | (416) |
| Accretion/amortization on short-term debt securities | (12) | (225) |
| Changes in operating assets and liabilities, net of acquired assets and assumed liabilities: | | |
| Accounts receivable, net of allowance | 12,424 | 6,584 |
| Other current assets | (743) | (415) |
| Accounts payable | (606) | (637) |
| Accrued compensation | (615) | 565 |
| Other accrued liabilities | (861) | (80) |
| Deferred tax assets, net of liabilities | (359) | (53) |
| Income taxes receivable/payable | (266) | 1,009 |
| Other deferred liabilities | (40) | (30) |
| Restructuring liabilities | (120) | (173) |
| Deferred revenue | (9,062) | (2,152) |
| Net cash (used in) provided by operating activities | (17) | 14,125 |
| **Investing activities** | | |
| Purchases of property and equipment | (91) | (356) |
| Proceeds from sale and maturity of investments | 21,169 | 20,432 |
| Purchases of short-term investments | (12,816) | (24,427) |
| Acquisitions, net of cash acquired | (3,945) | |
| Security deposits and other | (63) | 36 |
| Net cash provided by (used in) investing activities | 4,254 | (4,315) |

| | | |
|---|---|---|
| **Financing activities** | | |
| Pay-down of other loan obligations | (4,771) | |
| Credit facility related payments | | (12) |
| Excess tax benefit from exercise of stock options | 82 | 814 |
| Proceeds from issuance of common stock | 1,609 | 3,809 |
| Stock repurchases | (12,896) | (10,000) |
| Tax related to net share settlements of restricted stock awards and units | (94) | (50) |
| Net cash used in financing activities | (16,070) | (5,439) |
| Effect of exchange rates on cash and cash equivalents | (316) | (970) |
| Net (decrease) increase in cash and cash equivalents | (12,149) | 3,401 |
| Cash and cash equivalents at the beginning of the period | 41,750 | 37,483 |
| Cash and cash equivalents at the end of the period | $ 29,601 | $ 40,884 |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest | $ 23 | $ 102 |
| Cash paid for income taxes | $ 76 | $ 559 |

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

Table of Contents

**ACTUATE CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. Summary of Significant Accounting Policies

### *The Company*

Actuate Software Corporation was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998 as Actuate Corporation ( We , Actuate or the Company ). Actuate enabled solutions help its enterprise customers maximize revenue, cut costs, create more effective customer communications, streamline operations and create competitive advantage. Applications built using Actuate s products have delivered personalized analytics and insights to more than 200 million people. More than 3.5 million developers have downloaded open source BIRT, the open source Eclipse interactive development environment (IDE)-based project founded and co-led by Actuate. Many of these BIRT developers use commercial, value-added products from Actuate to enhance and deploy BIRT-based applications to deliver personalized analytics and insights to customers, partners and employees.

Enterprises use Actuate products to create customer-facing, Big Data analytics and customer communications management (CCM) applications with intuitive and visually-engaging experiences. These applications provide unique insights from multiple data sources, delivered securely across high volume of users and devices with proven scalability to millions of users. Developers use BIRT and BIRT iHub , (Actuate s commercial deployment platform for BIRT-based applications), to develop and deploy high scale applications that deliver information personalized for each user to enrich the brand experience and gain competitive advantage. BIRT iHub further ensures organizations can gain effective insights from Big Data and take advantage of mobile touch devices. Actuate s BIRT Analytics delivers self-service predictive analytics to enhance customer engagement from Big Data. BIRT Content Services empowers ECM architects to easily transform, personalize and archive high volume content and customer correspondences. Actuate s goal is to ensure that its customers can seamlessly incorporate information and business analysis into their day-to-day activities and decision-making, enabling organizations to explore new avenues for improving the bottom line. Actuate s principal executive offices are located at the BayCenter Campus at 951 Mariners Island Boulevard, in San Mateo, California. Actuate s telephone number is 650-645-3000. Actuate maintains Web sites at www.actuate.com, developer.actuate.com, www.birtondemand.com, www.quiterian.com and www.legodo.com. The information posted on our Web sites is not incorporated into this Form 10-Q.

*Basis of Presentation*

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its financial position, results of operations and cash flows. The Company s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Actuate s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 7, 2014.

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

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

***Revisions of Prior Period Reported Amounts***

During the second quarter of 2014, we identified and recorded adjustments associated with certain equity accounts reported in prior periods. The adjustments related entirely to the classification of accounts within shareholders equity. Specifically, it affected the classification amongst additional paid-in-capital ( APIC ), retained earnings and Treasury stock

Table of Contents

accounts for Employee Stock Purchase Plan (ESPP) shares that were previously reissued from Treasury. The reissuance resulted in a cumulative increase of approximately $3.75 million to Treasury stock account for the weighted average cost of the treasury shares reissued, a decrease of approximately $3.47 million to APIC for the reissuance price over cost (net gain) of the ESPP shares and an decrease of approximately $280,000 to retained earnings for the cost over price (net loss) from reissuance of the ESPP shares. Since these accounts are separate components within Stockholders equity, the net overall impact on the Consolidated Balance Sheet was zero for the period presented.

Pursuant to the guidance of SEC Staff Accounting Bulletin ( SAB ) No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatement in the Current Year Financial Statements, we concluded that the adjustments were not material to any of our annual or interim periods or the current period.

***Revenue Recognition***

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

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

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

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

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

In addition to licenses sold on perpetual basis, Actuate also sells its products on a time-based arrangement. The time-based licenses are sold either as on-premise time-based offerings or as hosted Software-as-a-Service (SaaS). The time-based transactions are typically broken down into separate license and maintenance components. The license component is

Table of Contents

recognized ratably over the term of the underlying arrangement as license revenue while the maintenance component is recognized ratably over the term of the underlying arrangement in services revenue in the Company s Condensed Consolidated Statement of Operations. Our SaaS offerings consist of BIRT Performance Analytics onDemand and BIRT onDemand. Actuate recognizes revenue on these licenses ratably over the term of the underlying arrangement. Revenues from Actuate s SaaS offerings are reported as services revenue in the Company s Condensed Consolidated Statement of Operations.

The Company establishes vendor specific objective evidence of fair value for maintenance and support using a bell-shaped curve approach for certain types of license transactions, and uses a stated maintenance renewal approach for other categories of license transactions. When applying the bell-shaped curve approach the Company analyzes all maintenance renewal transactions over the past twelve months for that category of license and plots those data points on a bell-shaped curve to ensure that a high percentage of the data points are within an acceptable margin of the established VSOE rate. This analysis is performed quarterly.

When applying the stated renewal rate approach, the Company ensures that the individual license transaction includes a clear and substantive renewal rate explicitly stated in the documentation for the transaction. Furthermore, the Company ensures that it has a practice of consistently renewing those transactions at the contractual rate. This is done by reviewing maintenance renewals on these contracts and making sure that a very high percentage are renewed at the renewal rates stipulated in the contract.

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

Actuate recognizes maintenance revenues, which consist of fees for ongoing support and unspecified product updates, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to standard implementation and configuration. Training revenues are generated from classes offered at the Company s offices and customer locations. Revenues from consulting and training services are typically recognized as the services are performed. When a contract includes both license and service elements, the license fee is typically recognized on delivery of the software, assuming all other revenue recognition criteria are met, provided services do not include significant customization or modification of the product and are not otherwise essential to the functionality of the software.

***Share-Based Compensation***

The Company has various types of share-based compensation plans. These plans are administered by the compensation committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. Readers should refer to Note 9 of the Company s consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2013, for additional information related to these share-based compensation plans. Share-based compensation expense and the related income tax benefit reflected in the Condensed Consolidated Statements of Operations in connection with stock options, restricted stock units, performance-based stock units and the Employee Stock Purchase Plan ( ESPP ) for three and six months ended June 30, 2014 and 2013 were as follows (in thousands):

| | **Three Months Ended** | **Six Months Ended** |
|---|---|---|

| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
|---|---|---|---|---|
| Stock options | $ 414 | $ 1,214 | $ 1,005 | $ 2,185 |
| Restricted stock units | 1,238 | 498 | 1,752 | 834 |
| Performance-based stock units [1] | 160 | 297 | 337 | 500 |
| ESPP | 95 | 336 | 231 | 572 |
| Total share-based compensation | $ 1,907 | $ 2,345 | $ 3,325 | $ 4,091 |
| Income tax benefit | $ 603 | $ 689 | $ 1,061 | $ 1,214 |

(1) Includes Performance Stock Units ( PSUs ) and market-performance based units ( MSUs ).
In May 2012, MSUs were granted to the Chief Executive Officer ( CEO ) and the Chief Financial Officer ( CFO ) of the Company. Each MSU represents the right to one share of Actuate s common stock. The actual number of MSUs which will be eligible to vest will be based on the performance of Actuate s stock price relative to the performance of the Standard

Table of Contents

& Poor s ( S&P ) Small Cap 600 Index over a two-year vesting period, up to 200% of the MSUs initially granted. After the initial performance period, 50% of the earned award vests immediately and the remaining 50% is subject to an additional one year service period. We valued the MSUs using the Monte Carlo simulation model and amortize the compensation expense over the three year performance and service period.

In April 2013, additional MSUs were granted to the CEO and the CFO of the Company. The actual number of MSUs which will be eligible to vest will be based on the performance of Actuate s stock price relative to the performance of the Russell 2000 Index over the vesting period, up to 200% of the MSUs initially granted. The award is divided into two tranches. The first tranche has a two year performance period and the second has a three year performance period.

In April 2014, the CEO and CFO were each granted two PSU awards, each with its own distinct internal, company-wide performance metric. The metric for the first award has a one year performance period to determine number of earnable shares, up to 100% of the initial grant, followed by a three-year vesting period with one-third vesting at the end of each calendar year. The metric for the second award has a one year performance period to determine number of earnable shares, up to 150% of the initial grant, followed by a two-year vesting period with half vesting at the end of each calendar year. Vesting for both grants is subject to continued employment with the Company. The PSU awards have a fair value equal to the stock price on the grant date. We amortize the compensation expense over the three or four year performance and service periods if and when achievement of the performance metrics are determined probable.

We estimate the expected term of options granted by analyzing actual historical experience of exercises and cancellations under our plans. We also look at the average length of time in which our current outstanding options are expected to be exercised or cancelled based on past experience and the vesting and contractual term. We estimate the volatility of our common stock by using historical volatility over the expected term. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those previously estimated. Management s estimate of forfeitures is based on historical experience; however actual forfeitures could differ as a result of employee terminations which may impact future share-based compensation expense. We base the risk-free interest rate used in the option valuation model on the daily Treasury yield curve interest rate published by the U.S. Department of the Treasury. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option valuation model. The assumptions used to estimate the fair value of stock options granted and stock purchase rights granted under our Employee Stock Purchase Plan (the Purchase Plan ) for the six months ended June 30, 2014 and 2013 are as follows:

| | Options Six Months Ended | | ESPP Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Volatility | 45.92 - 49.94% | 53.19 - 53.58% | 21.4 30.09% | 34.3 - 41.52% |
| Expected term (years) | 5.54 - 5.57 | 5.66 - 5.67 | 1.25 | 1.25 |
| Risk free interest rate | 1.62 - 1.73% | 0.77 - 1.38% | 0.07 - 0.30% | 0.11 - 0.27% |
| Expected dividend yield | 0% | 0% | 0% | 0% |

Beginning January 2010, restricted stock units ( RSUs ) were granted to senior management as part of the Company s annual incentive compensation program under the Amended and Restated 1998 Equity Incentive Plan. RSUs are valued based on the closing price of the Company s common stock on the grant date. In general, restricted stock units vest over four years with annual cliff vesting and are subject to the employees continuing service to the Company. For each restricted stock unit granted under the 1998 Plan, a share reserve ratio is applied for the purpose of determining

the remaining number of shares reserved for future grants under the plan. The share reserve ratio is 1:1 for each restricted stock unit granted, and an equivalent of 1 share will be deducted from the share reserve for each restricted stock unit issued. Likewise, each forfeited restricted stock unit increases the number of shares available for issuance by the applicable rate at the time of forfeiture.

In the first quarter of 2014 the Company expanded its equity incentive program to grant RSUs in-lieu of stock options to its employees across all levels based on performance. Stock options will continue to be granted as part of the Company s new hire program.

Performance stock units ( PSUs ) were also granted for the first time to select key employees of the Company. PSU vesting is contingent upon meeting certain company-wide performance goals.

Table of Contents

As of June 30, 2014, a total of 3,028,750 RSUs and performance-based awards have been granted to the Company s senior management, employees and non-employee Board of Directors.

***Net (loss) Income Per Share***

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Weighted-average common shares outstanding | 46,692 | 47,781 | 47,224 | 47,980 |
| Weighted-average dilutive common equivalent shares under the treasury stock method | | 2,690 | | 2,613 |
| Weighted-average common shares used in computing diluted net (loss) income per share | 46,692 | 50,471 | 47,224 | 50,593 |

Under the treasury stock method, stock options with exercise prices exceeding the average share price of the Company s common stock during the applicable period are excluded from the diluted earnings per share computation. The following table sets forth all potentially dilutive securities excluded from the computation in the table above because their effect would have been anti-dilutive (shares in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014[1]** | **2013[2]** | **2014[1]** | **2013[2]** |
| *Stock Options:* | | | | |
| Weighted-average excluded shares | 8,556 | 2,013 | 8,597 | 3,242 |
| Weighted-average exercise price | $ 5.25 | $ 5.98 | $ 5.24 | $ 6.13 |
| *Awards:* | | | | |
| Weighted-average excluded shares | 1,617 | 118 | 1,158 | 103 |

(1) Common equivalent shares are excluded from the calculation of net loss per share for the three and six months ended June 30, 2014.

(2) Anti-dilutive common equivalent shares are excluded from the calculation of diluted net income per share for the three and six months ended June 30, 2013.

***Income Taxes***

We provide for the effect of income taxes in our Condensed Consolidated Financial Statements using the asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryovers, and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. We also apply a two-step approach to determining the financial statement recognition and measurement of uncertain tax positions.

Income tax expense or benefit is recognized for the amount of taxes payable or refundable for the current year, and for deferred tax assets and liabilities for the tax consequences of events that have been recognized in an entity s financial statements or tax returns. We must make significant assumptions, judgments and estimates to determine our current provision (benefit) for income taxes, our deferred tax assets and liabilities, and any valuation allowance to be recorded against our deferred tax assets. Our judgments, assumptions and estimates relating to the current provision (benefit) for income taxes include the geographic mix and amount of income (loss), our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Our judgments also include anticipating the tax positions we will record in the financial statements before actually preparing and filing the tax returns. Our estimates and assumptions may differ from the actual results as reflected in our income tax returns and we record the required adjustments

Table of Contents

when they are identified or resolved. Changes in our business, tax laws or our interpretation of tax laws, and developments in current and future tax audits, could significantly impact the amounts provided for income taxes in our results of operations, financial position, or cash flows.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carry-forwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this assessment, we take into account predictions of the amount and category of taxable income from various sources and all available positive and negative evidence about these possible sources of taxable income. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which the strength of the evidence can be objectively verified. Based on the analysis of positive and negative factors noted above, we have no valuation allowance against U.S. federal deferred tax assets. For U.S. states, we have determined that it is more likely than not that the Company s California research credits will not be realized as we continue to generate credits significantly in excess of our yearly California tax liability. As such, we continue to maintain a full valuation allowance against our excess deferred tax asset for California research credit carry forwards. We maintain a full valuation allowance against deferred tax assets in foreign jurisdictions with a history of losses and a partial valuation allowance in foreign jurisdictions where operating results beyond a certain time frame are less reliable. If, in the future, we determine that these deferred tax assets are more likely than not to be realized, a release of all or part, of the related valuation allowance could result in an income tax benefit in the period such determination is made.

We only recognize an income tax expense or benefit with respect to uncertain tax positions in our financial statements that we judge is more likely than not to be sustained solely on its technical merits in a tax audit, including resolution of any related appeals or litigation processes. To make this judgment, we must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If an income tax position meets the more likely than not recognition threshold, then we must measure the amount of the tax benefit to be recognized by determining the largest amount of tax benefit that has a greater than a 50% likelihood of being realized upon effective settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible settlement outcomes. To determine if a tax position is effectively settled, we must also estimate the likelihood that a taxing authority would review a tax position after a tax examination has otherwise been completed. We must also determine when it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease in the 12 months after each fiscal year-end. These judgments are difficult because a taxing authority may change its behavior as a result of our disclosures in our financial statements. We must reevaluate our income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision.

***Sales Taxes***

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

***Recent Accounting Pronouncements***

In April 2014, the Financial Accounting Standards Board ( FASB ) issued new guidance related to reporting discontinued operations. This new standard raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The new standard is effective for fiscal years beginning on or after

December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We are evaluating the impact, if any, of adopting this new accounting standard on our financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for Actuate beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the impact of adopting this new accounting standard on our financial statements.

In June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a

Table of Contents

performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

**2. Acquisitions**

*legodo ag*

On January 31, 2014, The Company acquired legodo ag, a privately held software company based in Karlsruhe, Germany, whose mission is to develop software for easy and rapid generation of personalized customer correspondence via any modern communication channel, including social media. Actuate acquired 100% of the outstanding shares held by legodo shareholders. At the time of the acquisition the Company paid $3.9 million in cash to legodo shareholders. This amount was net of $1.5 million in cash acquired. There is also $1.6 million in potential additional cash payments which may be required through December 2014. These additional payments are wholly dependent on the achievement of specific revenue contingencies. The initial estimated fair value of these performance-based payments of approximately $1.1 million was determined based on management s estimate of fair value using a probability-weighted discounted cash flow model, which uses Level 3 inputs for fair value measurements. The fair value of the contingent consideration is remeasured on each reporting date, and changes to the fair value are recorded to acquisition related expenses on the consolidated statement of operations.

During the second quarter of 2014, we adjusted the estimated fair value of these performance-based payments due to a higher probability of meeting our annual revenue targets for legodo. As a result, we increased the fair value of these payments by $144,000 and increased the liability from $1.1 million to approximately $1.3 million at June 30, 2014. This second quarter 2014 adjustment of $144,000 was recorded to acquisition related expenses under general and administrative section of our Condensed Consolidated Statement of Operations.

Under the purchase accounting method, the total purchase price was allocated to legodo s net tangible and intangible assets based upon their estimated fair values as of January 31, 2014. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill.

Direct transaction costs related to the legodo acquisition totaling approximately $145,000 were incurred during the first quarter of 2014. These costs include legal and accounting fees, and other external costs directly related to the acquisition. These acquisition related costs were directly charged to general and administrative expense on the Condensed Consolidated Statements of Operations as incurred.

The table below represents the allocation of the purchase price to the acquired net assets of legodo based on their estimated fair values as of January 31, 2014 and the associated estimated useful life at that date.

| | Amount (in thousands) | Useful life (in years) |
|---|---|---|

| | | | |
|---|---|---|---|
| Net tangible assets and liabilities | $ | (2,555) | N/A |
| Existing technology | | 2,722 | 7 |
| Customer contracts and relationships | | 1,769 | 7 |
| Goodwill | | 4,582 | N/A |
| Total purchase consideration | $ | 6,518 | |

As with acquisitions that the Company has undertaken in the past, the Company has initiated structural changes in its corporate structure in order to incorporate legodo. These changes in Company s organizational structure are ongoing and could affect future estimates and assumptions.

*Net tangible assets and liabilities:*

legodo s tangible assets and liabilities as of January 31, 2014 were adjusted to their estimated fair value as necessary. Among the net tangible assets assumed were approximately $1.5 million in cash and cash equivalents, $1.1 million in trade receivables, and $4.3 million in notes payable. The notes payable was paid in full by Actuate immediately following acquisition.

Table of Contents

*Identifiable intangible assets:*

*Existing technology* consists of legodo s scalable communication solutions which maximize the capabilities of connecting to customers while being able to customize messages and platforms. legodo s software suite helps its users to have more control over various customer communication channels, such as emails, letters, texting, Multimedia Messaging Service (MMS), and others. Its solution is also used in providing document generation and creation, quotations and contracts management, and digital processing solutions. The existing technology represents an intangible asset separate from goodwill. The existing technology was valued using a form of the income approach known as the excess earnings method. In the excess earnings method, value is estimated as the present value of the benefits anticipated from ownership of the subject intangible asset in excess of the returns required on the investment in the contributory assets necessary to realize those benefits. It is based on the theory that all operating assets contribute to the profitability of an enterprise. Therefore, if the estimated earnings associated with a specific asset of a company rely on the use of other company assets, then the estimated earnings of the subject asset must be reduced by appropriate charges for the use of these contributory assets.

*Customer contracts and relationships* legodo provides customer contact software to customers, primarily to German corporations. Typically, the Company works directly with customers through licensing its products and continued maintenance and consulting. These relationships represent an intangible asset separate from goodwill. Similar to the existing technology, the fair value of the customer contracts and relationships was established using the excess earnings method. Discussions with legodo management and review of the business operations indicated that the typical market participant interested in acquiring legodo would view the Company s current customer relationships as an asset of central importance. An income approach was selected as the best method to capture the subject customers expected contribution to future earnings.

We expect to amortize the fair value of these intangible assets on a straight-line basis over their respective estimated useful life.

*Goodwill:*

Goodwill represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets. The factors that contributed to the recognition of goodwill included securing buyer-specific synergies that increase revenue and profits and are not otherwise available to a marketplace participant. No amount of goodwill is expected to be deductible for tax purposes.

**3. Fair Value Measurements of Financial Assets and Liabilities**

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For certain of our financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and other current liabilities the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

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

Level 1 Valuations based on real-time quotes for transactions in active exchange markets involving identical assets.

Level 2 Valuations based on readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs.

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

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

The following table represents information about the Company s investments measured at fair value (in thousands).

Table of Contents

| | Fair value of investments as of June 30, 2014 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market funds [1] | $ 4,351 | $ 4,351 | $ | $ |
| Term deposits [1] | 800 | 800 | | |
| Commercial paper [2][3] | 8,498 | | 8,498 | |
| Corporate bonds [2] | 24,824 | | 24,824 | |
| | $ 38,473 | $ 5,151 | $ 33,322 | $ |

| | Fair value of investments as of December 31, 2013 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market funds [1] | $ 6,088 | $ 6,088 | $ | $ |
| Term deposits [1] | 7,122 | 7,122 | | |
| Commercial paper [2] | 4,498 | | 4,498 | |
| Corporate bonds [2] | 32,652 | | 32,652 | |
| Federal and municipal obligations [4] | 4,000 | | 4,000 | |
| | $ 54,360 | $ 13,210 | $ 41,150 | $ |

(1) Included in cash and cash equivalents in the Company s Condensed Consolidated Balance Sheet.
(2) Included in short-term investments in the Company s Condensed Consolidated Balance Sheet.
(3) Of this amount, approximately $3.5 million was included in cash equivalents at June 30, 2014 and the remainder was included in the short-term investment in the Company s Condensed Consolidated Balance Sheet.
(4) Of this amount, approximately $3 million was included in cash equivalents at December 31, 2013 and the remainder was included in short-term investments in the Company s Condensed Consolidated Balance Sheet.

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

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

| | Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| Balance at June 30, 2014 | | | | |
| Classified as cash and cash equivalents: | | | | |
| Cash | $ 20,950 | $ | $ | $ 20,950 |
| Term deposits | 800 | | | 800 |
| Money market funds | 4,351 | | | 4,351 |
| Commercial paper | 3,500 | | | 3,500 |
| | 29,601 | | | 29,601 |
| Classified as short-term investments: | | | | |
| Commercial paper [5] | 4,999 | | (1) | 4,998 |
| Corporate bonds [5] | 24,811 | 19 | (6) | 24,824 |
| | 29,810 | 19 | (7) | 29,822 |
| Total | $ 59,411 | $ 19 | $ (7) | $ 59,423 |

(5) Securities totaling approximately $16 million were in an unrealized loss position at June 30, 2014. None of these securities were in a continuous unrealized loss position for greater than 12 months.

Table of Contents

| | Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| Balance at December 31, 2013 | | | | |
| Classified as cash and cash equivalents: | | | | |
| Cash | $ 25,540 | $ | $ | $ 25,540 |
| Term deposits | 7,122 | | | 7,122 |
| Money market funds | 6,088 | | | 6,088 |
| Federal and municipal obligations | 3,000 | | | 3,000 |
| | 41,750 | | | 41,750 |
| Classified as short-term investments: | | | | |
| Commercial paper [6] | 4,498 | | | 4,498 |
| Corporate bonds [6] | 32,654 | | (2) | 32,652 |
| Federal and municipal obligations | 1,000 | | | 1,000 |
| | 38,152 | | (2) | 38,150 |
| Total | $ 79,902 | $ | $ (2) | $ 79,900 |

(6) Securities totaling approximately $18.1 million were in an unrealized loss position at December 31, 2013. None of these securities were in a continuous unrealized loss position for greater than 12 months.

Our cash equivalent and short-term investment portfolio as of June 30, 2014, consists of investment grade U.S. Government Agency securities, taxable money market mutual funds and taxable commercial paper and corporate notes. We follow an established investment policy and set of guidelines to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer. As of June 30, 2014, we had no direct investments in structured investment vehicles, sub-prime mortgage-backed securities or collateralized debt obligations and no exposure to these financial instruments through our indirect holdings in money market mutual funds. During fiscal years 2014 and 2013 we had no impairment charge associated with our short-term investment portfolio. While we cannot predict future market conditions or market liquidity, we regularly review our investments and associated risk profiles, which we believe will allow us to effectively manage the risks of our investment portfolio.

Short-term investments are classified as available-for-sale and are recorded on the Company s Consolidated Balance Sheet at fair market value with unrealized gains or losses reported as a separate component of Accumulated Other Comprehensive (loss) Income. At June 30, 2014, the Company has classified all of its securities with original maturities beyond 90 days as short-term investments, even though the stated maturity dates may be one year or more beyond the current balance sheet date as these investments remain highly liquid and available for use in current operations.

**4. Restructuring Charges**

During the first half of fiscal 2014, the Company incurred a restructuring charge of approximately $307,000 associated mainly with closure of its Shanghai, China operation, which was effective January 31, 2014. The closure resulted in termination of approximately 50 employees, mainly in research and development, and totaled approximately $1.2 million in employee severance and associated charges. Of the total $1.2 million in severance

associated with the China restructuring, only the portion that constituted one-time employee termination benefits were deemed as restructuring while the remaining balance was classified as an on-going employee benefits arrangement. An ongoing benefit arrangement is presumed to exist if an entity has a past practice of providing similar termination benefits, including statutorily-required benefits, to be provided in the event of involuntary termination. The Company classified most of the on-going benefits arrangement portion of the Shanghai, China restructuring to research and development as compensation expense during the first six months of fiscal 2014.

Additionally, the Company recorded facility related charges associated with the Shanghai facility totaling approximately $112,000 which it incurred upon exiting the facility in the second quarter of 2014. The Company also updated its estimates of sublease income related to its idle facility in Toronto Canada resulting in approximately $89,000 in restructuring expense during the second quarter of 2014.

Table of Contents

The following table summarizes the restructuring accrual activity during the six months ended June 30, 2014 (in thousands):

| | Severance & Benefits | Facility Related | Total |
|---|---|---|---|
| Balance at December 31, 2013 | $ | $ 314 | $ 314 |
| Restructuring charges (Q1) | 106 | | 106 |
| Restructuring charges (Q2) | 9 | 192 | 201 |
| Reclassifications | 96 | (96) | |
| Cash payments, net of rents collected on sublease | (185) | (152) | (337) |
| Other [1] | 8 | (98) | (90) |
| Balance at June 30, 2014: | 34 | 160 | 194 |
| Less: Current portion: | (34) | (149) | (183) |
| Long-term balance at June 30, 2014 [2] | $ | $ 11 | $ 11 |

(1) Mainly relate to non-cash asset charges related to the closure of the Shanghai facility that were recorded to restructuring expense but not included in the restructuring accruals and therefore adjusted for presentation purposes. Also included are foreign currency translation adjustments.

(2) Included in Other liabilities long-term section of the Condensed Consolidated Balance Sheet.

**5. Segment and Geographic Information**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| North America | $ 19,811 | $ 26,731 | $ 37,205 | $ 54,552 |
| Europe, Middle East, and Africa (EMEA) | 5,227 | 6,820 | 10,774 | 12,593 |
| Asia Pacific and others | 1,475 | 1,351 | 2,620 | 2,675 |
| | $ 26,513 | $ 34,902 | $ 50,599 | $ 69,820 |

As of June 30, 2014, we operated solely in one segment, which is the development, marketing and support of our enterprise reporting application platforms. There were no customers that accounted for more than 10% of total revenues in the six months ended June 30, 2014 or 2013.

**6. Goodwill and Other Purchased Intangible Assets**

***Goodwill***

Goodwill is not amortized, but is evaluated for impairment on an annual basis or when impairment indicators are present. The Company performs its annual impairment test of goodwill as of October 1st of each year. The potential impairment is identified if the fair value of the reporting unit to which goodwill applies is less than the recorded book value of the related reporting entity, including such goodwill. Where the book value of a reporting entity, including related goodwill, is greater than the reporting entity s fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. There have been no significant events or circumstances affecting the valuation of goodwill subsequent to the impairment test performed on October 1, 2013. As a result, the Company did not record any impairment related to its goodwill for the period ended June 30, 2014.

Table of Contents

The following is a roll-forward of the activity that affected goodwill during the first half of 2014 (in thousands):

| | |
|---|---|
| Goodwill as of December 31, 2013 | $ 51,962 |
| Acquisition of legodo ag | 4,582 |
| Foreign currency translation | (152) |
| Goodwill as of June 30, 2014 | $ 56,392 |

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

| | June 30, 2014 | | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Acquisition of legodo ag | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer lists | $ 22,350 | $ 1,769 | $ (19,239) | $ 4,880 | $ 22,350 | $ (18,539) | $ 3,811 |
| Purchased technologies | 17,325 | 2,722 | (13,354) | 6,693 | 17,325 | (12,527) | 4,798 |
| Leases | 47 | | (39) | 8 | 47 | (35) | 12 |
| Foreign currency impact | (33) | (63) | (6) | (102) | (33) | | (33) |
| | $ 39,689 | $ 4,428 | $ (32,638) | $ 11,479 | $ 39,689 | $ (31,101) | $ 8,588 |

Amortization expense of purchased technology and other intangible assets was approximately $795,000 and $634,000 for the quarters ended June 30, 2014 and 2013, respectively. Of this total, approximately $431,000 and $333,000 was related to the amortization of purchased technology for the quarters ended June 30, 2014 and 2013, respectively. Purchased identifiable intangible assets are amortized on a straight-line basis over their useful lives. The estimated useful economic lives of the acquired customer lists and purchased technologies are seven years. The estimated economic useful life of favorable leases is five years. Amortization of purchased technology is included in cost of license fees in the accompanying condensed consolidated statements of income.

During the first quarter of 2014, the Company recorded additions to its purchased intangible assets of approximately $4.5 million related to the acquisition of legodo ag. For additional discussion, see Note 2 of this Form 10-Q.

The expected remaining annual amortization expense is summarized as follows (in thousands):

| **Fiscal Year** (in thousands): | Purchased Technology and Intangibles |
|---|---|
| 2014 (remainder of year) | $ 1,584 |
| 2015 | 3,161 |
| 2016 | 3,158 |
| 2017 | 1,104 |
| 2018 | 917 |

| | |
|---|---|
| 2019 and thereafter | 1,555 |
| | $ 11,479 |

**7. Commitments and Contingencies**

***General***

The Company is engaged in certain legal actions arising in the ordinary course of business. Although there can be no assurance as to the outcome of such litigation, the Company believes it has adequate legal defenses and it believes that neither the ultimate outcome of any of these actions nor ongoing litigation costs will not have a material effect on the Company s consolidated financial position or results of operations.

***Revolving credit line***

During the second quarter of 2013, following a comparative evaluation of its credit facility, the Company decided to change to another vendor to service its borrowing needs. As a result, the Company terminated its existing credit agreement with Wells Fargo Capital Finance ( WFCF ) and on June 30, 2013 entered into a new revolving credit agreement with U.S. Bank National Association ( US Bank ) through and until June 29, 2017. The Company intends to use the proceeds from the Credit Agreement for working capital, acquisitions, issuance of commercial and standby letters of credit, stock repurchases, capital expenditures and other general corporate purposes.

Table of Contents

The new Credit Agreement with US Bank allows for cash borrowings and the issuance of letters of credit under a secured revolving credit facility up to a maximum of $50 million. Interest accrues based on, at the Company s election, (i) LIBOR plus an applicable spread based on the Company s consolidated total cash flow leverage ratio or (ii) the greater of: (a) the Federal Funds Effective Rate plus one half of one percent, (b) one month LIBOR plus one percent, and (c) U.S. Bank s prime rate, in each case plus an applicable spread based on the Company s consolidated total cash flow leverage ratio. The Company is required to make interest payments on a monthly basis.

Following the termination of its agreement with WFCF, the Company wrote-off all remaining unamortized costs related to the old credit facility totaling approximately $188,000 in the second quarter of 2013. Costs related to the new credit facility with US Bank were not significant.

As of June 30, 2014, there was no balance owed on the credit facility and the balance available under the revolving credit facility was $50 million.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| (In thousands): | | | | |
| Amortization of debt issuance costs | $ 5 | $ 20 | $ 10 | $ 40 |
| Unused line fees | | 37 | | 75 |
| | $ 5 | $ 57 | $ 10 | $ 115 |

The Credit Agreement with US Bank contains covenants, which, among other things, impose certain limitations with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. The Company is also required to maintain the two financial covenants listed below:

Consolidated total cash flow leverage ratio not to exceed 2.50 to 1.00, and

A fixed charge coverage ratio of not less than 1.75 to 1.00.

The indebtedness under the Credit Agreement is secured by (i) substantially all of the personal property (whether tangible or intangible) of Actuate Corporation and Actuate International Holding Company (as guarantor) as well as the proceeds generated by that property and (ii) by a pledge of all of its stock and a portion of the stock of certain of its subsidiaries.

***Notes payable***

Associated with the acquisition of Quiterian on October 16, 2012, the Company inherited two loan agreements that were previously executed to finance the development of the Quiterian software. The loans were offered by the Spanish government subsidy programs and are restricted for use on development of the software. One of the loans is interest free and has a principal balance of approximately $0.5 million. This loan was repaid in March of 2014. The other loan is a variable rate loan with an average rate of approximately 5% and a principal balance of approximately $0.4 million. This loan is scheduled for repayment on a quarterly basis starting June 2014 and ending December 2016 and

is classified as notes payable on the Company s Condensed Consolidated Balance Sheet at June 30, 2014.

***Operating Lease Commitments***

On November 28, 2011, the Company entered into a ten year lease agreement with a third party for approximately 58,000 square feet of office space in the BayCenter Campus in San Mateo, California. This lease is operating in nature and commenced on June 1, 2012 and will end on May 31, 2022. In addition, the lease provides for four months of free rent (rent holiday) and approximately $2.6 million in landlord incentives to be applied towards construction of improvements. At June 30, 2014, the deferred rent liability balance related to the new lease totaled approximately $3.3 million and this balance declines through May 2022 when contractual cash payments exceed the straight-line lease expense. Of this total deferred rent liability balance, approximately $260,000 was classified as short term and $3.1 million was classified as other long term liabilities on the Company s Condensed Consolidated Balance Sheet at June 30, 2014. Actuate is using the BayCenter Campus as its corporate headquarters.

Table of Contents

Upon the execution of the new lease, Actuate delivered to the new landlord two letters of credit totaling $225,300. These letters of credit guarantee Actuate s contractual obligations related to the BayCenter Campus in San Mateo, California.

In fiscal 2012, the Company entered into a new lease agreement for one of its sales locations in Europe. Upon the execution of the new lease, Actuate delivered to the new landlord a letter of credit for approximately $88,000 in order to guarantee its contractual obligations related to this lease.

Actuate leases smaller office facilities in various locations in the United States and abroad. All facilities are leased under operating leases. Total rent expense for the second quarter and first six months of fiscal 2014 was approximately $1.1 million and $2.2 million, respectively, compared with rent expense of approximately $1.1 million in second quarter and $2.2 million in the first six months of fiscal 2013. In addition, the Company incurred facility related charges of approximately $157,000 and $360,000 in the second quarter and the first six months of fiscal 2014, respectively. During the same period last year, the Company incurred approximately $144,000 and $313,000 of facilities related charges in the second quarter and the first six months of fiscal 2013, respectively.

***Stock Option Plans***

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

Beginning in 2013 each continuing non-employee director is granted a RSU award covering 16,000 shares of the Company s Common Stock at each annual stockholders meeting. Each restricted stock unit award granted to a continuing non-employee director will vest upon the non-employee director s continued Board service through the first anniversary of the award date. Before the start of each calendar year, each of our non-employee directors is given the opportunity to elect to defer the receipt of any or all of the shares of Actuate Common Stock that vest and become issuable pursuant to the restricted stock unit award to be made to such non-employee director at the next annual stockholders meeting. If a non-employee director makes a timely deferral election, then the shares of Actuate Common Stock in which he or she vests under the RSU award will be issued upon his termination of Board service. In the absence of an effective deferral election, any shares of the Company s Common Stock in which the non-employee director vests under the RSU award will be issued as those shares vest.

Each restricted stock unit award and each option award granted to a new or continuing non-employee director will vest in full on an accelerated basis upon (i) an approved acquisition of the Company by merger or consolidation, (ii) a sale of all or substantially all of the Company s assets, (iii) the successful completion of a tender or exchange offer for

securities possessing more than fifty percent (50%) of the total combined voting power of the Company s outstanding securities, or (iv) the death or disability of the optionee while serving as a member of the Board of Directors. Each restricted stock unit that vests will entitle the recipient to one share of the Company s common stock on the designated issuance date for that share. All grants are made under the 1998 Plan.

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

Shares issued as a result of the exercise of options under any of our plans would be fulfilled through shares currently in our existing pools. Total authorized but unissued shares were 20,956,493 as of June 30, 2014.

Table of Contents

| Plan Summary | Available for Grant | Options and Awards Outstanding[2] | Total Authorized But Unissued |
|---|---|---|---|
| Amended and Restated 1998 Equity Incentive Plan | 9,081,808 | 11,098,121 | 20,179,929 |
| 2001 Supplemental Stock Plan | 714,487 | 19,366 | 733,853 |
| 1998 Non-Employee Director Option Plan | | 95,000 | 95,000 |
| Total Stock Plans | 9,796,295 | 11,212,487 | 21,008,782 |
| Miscellaneous Stock Grant [1] | (52,289) | | (52,289) |
| Total Stock Plans Balance at June 30, 2014 | 9,744,006 | 11,212,487 | 20,956,493 |

(1) Board approved stock grant on February 17, 2011 to the beneficiary of a deceased senior executive in recognition of services performed. Also included are 2,289 shares of stock granted to an employee in April 2013.

(2) Total outstanding at June 30, 2014 includes 8,451,045 of options and 2,841,812 of RSUs awards, net of 80,370 of forfeited MSUs in fiscal 2013.

The weighted average grant date fair value of options granted during the quarter ended June 30, 2014 was $2.12 per option. Upon the exercise of options, the Company issues new common stock from its authorized shares. The total intrinsic value of options exercised during the quarter ended June 30, 2014 was $151,000.

All vested stock options are exercisable. The following table summarizes information about stock options outstanding and exercisable as of June 30, 2014:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price |
| $1.86-$3.56 | 953,795 | 3.48 years | $ 3.32 | 953,795 | $ 3.32 |
| $3.59-$4.65 | 878,618 | 2.49 years | $ 3.90 | 834,350 | $ 3.88 |
| $4.74-$4.80 | 722,454 | 5.28 years | $ 4.80 | 714,633 | $ 4.80 |
| $4.84-$5.31 | 1,098,931 | 3.21 years | $ 5.14 | 1,071,959 | $ 5.14 |
| $5.32-$5.48 | 978,261 | 6.27 years | $ 5.48 | 828,746 | $ 5.48 |
| $5.49-$6.08 | 1,213,823 | 8.50 years | $ 5.63 | 382,880 | $ 5.58 |
| $6.09-$6.28 | 1,178,790 | 4.01 years | $ 6.11 | 1,093,251 | $ 6.11 |
| $6.29-$7.91 | 1,426,373 | 7.34 years | $ 6.46 | 813,441 | $ 6.42 |
| $1.86-$7.91 | 8,451,045 | 5.26 years | $ 5.24 | 6,693,055 | $ 5.07 |

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Options Outstanding Vested and Expected to Vest | | |
| Vested and expected to vest, net of expected forfeitures | 8,389,070 | 10,806,773 |
| Aggregate intrinsic value (in thousands) | $ 2,146 | $ 16,625 |
| Weighted average exercise price per share | $ 5.24 | $ 5.11 |
| Weighted average remaining contractual term (in years) | 5.24 | 5.92 |
| Options Exercisable | | |
| Options currently exercisable | 6,693,055 | 7,665,751 |
| Aggregate intrinsic value of currently exercisable options (in thousands) | $ 2,124 | $ 13,977 |
| Weighted average exercise price per share | $ 5.07 | $ 4.83 |
| Weighted average remaining contractual term (in years) | 4.46 | 4.79 |

As of June 30, 2014, the number of shares reserved for future grants under all option plans was 9,744,006. The number of shares available for future purchase under the Purchase Plan was 2,620,195.

Table of Contents

***Summary of Restricted Stock Units***

Restricted stock unit activity for the six months ended June 30, 2014 and 2013:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Beginning outstanding balance | 1,003,812 | 577,374 |
| Awarded | 1,257,500 | 447,500 |
| Released | (55,500) | (21,062) |
| Forfeited | (49,000) | |
| Ending outstanding balance | 2,156,812 | 1,003,812 |

The weighted average grant date fair value of restricted stock units granted during the quarter ended June 30, 2014 and 2013 were $5.51 and $6.55 per unit, respectively.

| | Number of Units | Weighted Average Remaining Contractual Life (years) | Aggregate Intrinsic Value (thousands) |
|---|---|---|---|
| Restricted stock units outstanding [1] | 2,156,812 | 1.85 | $ 10,288 |
| Restricted stock units vested and expected to vest [2] | 2,069,147 | 1.81 | $ 7,283 |
| Restricted stock units vested and deferred [3] | 542,375 | | $ 2,587 |

(1) Total outstanding units include all unvested and vested but deferred shares which will be released to the employee upon separation from service.
(2) Includes shares vested to-date and expected to vest shares which comprises of unvested shares net of expected forfeitures.
(3) Vested awards with deferral elections to be released to the employee upon separation from service.

***Summary of Performance-Based Restricted Stock Units***

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Beginning outstanding balance | 279,630 | 235,000 |
| Awarded | 325,000 | 125,000 |
| Ending outstanding balance | 604,630 | 360,000 |

The weighted average grant date fair value of performance-based RSUs granted during the quarter ended June 30, 2014 and 2013 were $5.74 and $5.60 per unit, respectively.

| | Number of Units | Weighted Average Remaining Contractual Life (years) | Aggregate Intrinsic Value (thousands) |
|---|---|---|---|
| Performance-based units outstanding [1] | 604,630 | 1.65 | $ 2,884 |
| Performance-based units vested and expected to vest [2] | 577,019 | 1.62 | $ 2,575 |
| Performance-based units vested and deferred [3] | 37,130 | | $ 177 |

(1) Total outstanding units include all unvested and vested but deferred shares which will be released to the employee upon separation from service.
(2) Includes shares vested to-date and expected to vest shares which comprises of unvested shares net of expected forfeitures.
(3) Vested awards with deferral elections to be released to the employee upon separation from service.

***Stockholder Rights Plan***

On June 17, 2014, we adopted a stockholder rights plan and declared a dividend of one stock purchase right (a Right ) for each outstanding share of common stock of the Company ( Common Shares ). Each Right entitles the registered holder to purchase from the Company one thousandth of a share of the Company s Series A Junior Participating Preferred Stock (the Preferred Shares ) at a price of $25 per one thousandth of a Preferred Share (the Purchase Price ), subject to adjustment. In the event that any person or group owns more than 15% of the Company s outstanding common stock and thereby becomes an Acquiring Person , each holder of a Right, other than Rights beneficially owned by the Acquiring Person, will thereafter have the right to receive upon exercise and payment of the exercise price that number of shares of common stock having a market value of two times the exercise price of the Right. In the event that any person or group becomes an Acquiring Person and the Company merges into or engages in certain other business combinations with any

Table of Contents

Person, or 50% or more of its consolidated assets or earning power are sold to any Person other than the Company or one of its wholly owned Subsidiaries, each holder of a Right, other than Rights owned by an Acquiring Person (and the affiliates, associates and certain transferees of such Acquiring Person), will thereafter have the right to receive, upon exercise and payment of the exercise price, that number of shares of common stock of the acquiring company that at the time of such transaction will have a market value of two times the exercise price of the Right; provided that, if the Company fails to meet such obligation within 30 days following the date a Person becomes an Acquiring Person, the Company must deliver, upon exercise of a Right but without requiring payment of the exercise price then in effect, Common Shares (to the extent available) and cash equal in value to the difference between the value of the Common Shares otherwise issuable upon the exercise of a Right and the exercise price then in effect. The company has determined the fair value of the dividend to be insignificant and therefore has recorded $0 on the date of declaration.

Further, some provisions of our charter documents, including provisions, eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or our management, which could have an adverse effect on the market price of our stock. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit an interested stockholder from engaging in a business combination with us for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner.

**8. Deferred Revenue**

Deferred revenue consists of the following (in thousands):

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Current portion | | |
| Maintenance and support | $ 34,635 | $ 42,407 |
| Other | 3,569 | 3,886 |
| Total current portion: | $ 38,204 | $ 46,293 |
| Long term portion: | 1,050 | 1,640 |
| Total deferred revenue | $ 39,254 | $ 47,933 |

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

Other deferred revenue consists of deferred license, training and consulting fees generated from arrangements, which did not meet some or all of the revenue recognition criteria consistent with the Company s revenue recognition policy, and are, therefore, deferred until all revenue recognition criteria have been met. Other deferred revenue also consists of deferred Software-as-a-Service (SaaS) fees which are recognized to revenue ratably over the term of the underlying arrangement.

23

Table of Contents

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

*The following information should be read in conjunction with the historical financial information and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q, the consolidated financial statements and notes thereto and the related Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on March 7, 2014.*

*The statements contained in this Form 10-Q that are not purely historical are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including statements regarding Actuate s expectations, beliefs, hopes, intentions, plans or strategies regarding the future. All forward-looking statements in this Form 10-Q are based upon information available to Actuate as of the date hereof, and Actuate assumes no obligation to update any such forward-looking statements. Actual results could differ materially from Actuate s current expectations. Factors that could cause or contribute to such differences include, but are not limited to, the risks discussed in Part II, Item 1A Risk Factors of this Form 10-Q, Part I, Item 1A Risk Factors in our Annual Report for the year ended December 31, 2013 and in other filings made by the Company with the Securities and Exchange Commission.*

***Overview***

Actuate Software Corporation was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998 as Actuate Corporation ( We , Actuate or the Company ). Actuate enabled solutions help its enterprise customers maximize revenue, cut costs, create more effective customer communications, streamline operations and create competitive advantage. Applications built using Actuate s products have delivered personalized analytics and insights to more than 200 million people. More than 3.5 million developers have downloaded open source BIRT, the open source Eclipse interactive development environment (IDE)-based project founded and co-led by Actuate. Many of these BIRT developers use commercial, value-added products from Actuate to enhance and deploy BIRT-based applications to deliver personalized analytics and insights to customers, partners and employees.

Enterprises use Actuate products to create customer-facing, Big Data analytics and customer communications management (CCM) applications with intuitive and visually-engaging experiences that provide unique insights from multiple data sources, delivered securely across high volume of users and devices with proven scalability to millions of users. Developers use BIRT and BIRT iHub , Actuate s commercial deployment platform for BIRT-based applications, to develop and deploy high scale applications that deliver information personalized for each user to enrich the brand experience and gain competitive advantage. BIRT iHub further ensures organizations can gain effective insights from Big Data and take advantage of mobile touch devices. Actuate s BIRT Analytics delivers self-service predictive analytics to enhance customer engagement from Big Data. BIRT Content Services empowers ECM architects to easily transform, personalize and archive high volume content. Actuate s goal is to ensure that its customers can seamlessly incorporate information and business analysis into their day-to-day activities and decision-making, enabling organizations to explore new avenues for improving the bottom line. Actuate s principal executive offices are located at the BayCenter Campus at 951 Mariners Island Boulevard, in San Mateo, California. Actuate s telephone number is 650-645-3000. Actuate maintains Web sites at www.actuate.com, www.developer.actuate.com, www.birtondemand.com, www.quiterian.com and www.legodo.com. The information posted on our Web sites is not incorporated into this Form 10-Q.

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

products to end-user customers. Our total revenues are derived from license fees for software products and fees for services relating to such products, including software maintenance and support, professional services and training.

Our business model and longer-term financial results are not immune to a sustained economic downturn. While the global economy appears to be improving, the future direction and relative strength of the global economy continues to be uncertain and makes it difficult for us to forecast operating results and to make decisions about future investments. During challenging and uncertain economic times and in tight credit markets, many customers delay or reduce technology purchases. Contract negotiations may become more protracted or difficult if customers institute additional internal approvals for technology purchases or require more negotiation of contract terms and conditions. Such economic conditions could result in reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable or delayed payments, slower adoption of new technologies, increased price competition and reductions in the rate at which our customers renew their maintenance agreements and procure consulting services.

Table of Contents

We continue to transition from our legacy e.Reports/iServer product suite to our new BIRT iHub product offerings. As a consequence we are experiencing a decrease in license revenues generated by our e.Report/iServer products. We expect this decrease to be mitigated by increases in license revenue generated by our successor BIRT iHub offerings over time. During this transition we may experience delays in adoption of our BIRT iHub offerings by our customers which can adversely impact our license revenues. During the first six months of 2014, we experienced a significant reduction in our license revenues, partially driven by a sharp decline in license sales in excess of $1 million. In the mean-time, BIRT iHub is expected to soon become the dominant contributor to license and maintenance revenues.

Factors that may affect our operating results include the possibility of a prolonged period of limited economic growth or possible economic decline in and adverse effects of the ongoing sovereign debt crisis in Europe, including its expected negative impact on European economic growth versus the rest of the world; disruptions to the credit and financial markets in Europe, the U.S., and elsewhere; contractions or limited growth in corporate spending; and adverse economic conditions that may be specific to information technology and the software industry.

We continue to monitor market conditions and may make adjustments to our business in order to reduce the adverse impact that changes to the economic environment could have on our business.

In the past Actuate has principally priced and sold its products on a perpetual model. However, the Company is actively transitioning its primary pricing model to a subscription model. We are seeing a shift in customer s purchasing behavior for enterprise software. This shift appears to favor a subscription model. Generally speaking, these subscription licenses will be recognized ratably over the subscription service period. The subscription model provides more flexibility for our customers to use our software and we believe is in line with current market trends. We believe subscription-based license should provide an easier adoption of commercial software for open source BIRT users and provide our customers with timely access to Actuate s latest product releases. We are currently transitioning to the subscription model and expect this transition to be substantially complete by 2017.

On July 10, 2014, we announced the launch of BIRT iHub F-Type, which allows free access to the features and power of the commercial BIRT iHub enterprise-grade deployment platform, with metered output capacity. We believe BIRT iHub F-Type will be a key contributor to Actuate s subscription business.

We expect to continue to explore both organic and strategic growth opportunities. In particular, we may acquire companies or technologies that can contribute to the strategic, operational and financial performance of our business. On January 31, 2014, we completed the acquisition of legodo ag, a privately held software company based in Karlsruhe, Germany whose mission is to develop software for easy and rapid generation of personalized customer correspondence via any modern communication channel, including social media. Legodo products will significantly expand the Accessible Customer Communications Management solution offered by our Content Services Group (formerly Xenos).

For the remainder of fiscal year 2014, we expect three additional trends to continue that would have a significant impact on the results of our operations. We currently believe that corporate IT budgets will grow only modestly if at all for the remainder of fiscal year 2014, particularly among financial services companies. Secondly, corporations are reluctant to buy software from new vendors and we continue to witness corporations consolidating their Business Analytics, Big Data, Performance Management and Customer Communications Management software purchases among fewer suppliers. Finally, we expect to experience vigorous competition in the market. Several of our competitors have released products that are marketed to be directly competitive with our offerings. We will continue to encounter customers choosing to develop information applications using programming languages such as Java. Actuate faces competition from large and well-established vendors including Microsoft, SAP, Oracle and IBM. The existence of these competitors may require additional sales and marketing efforts to differentiate our products, which

could result in extended sales cycles.

For the remainder of fiscal year 2014, we will continue to pursue our strategic initiatives to improve revenue growth driven by BIRT, BIRT iHub, BIRT Customer Communications Management and BIRT Analytics. These initiatives are as follows:

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

Table of Contents

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

Selling to Line-of-Business Management We are creating Business Analytics applications and software solutions to market to line-of-business managers. These offerings are in the areas of customer analytics and operational analytics. We hope these initiatives will result in increased license revenue over the medium-to-long term.

Selling to Global 9000 Corporations in the Financial Services Sector We continue to focus on selling our products to Global 9000 financial services companies in an effort to increase our substantive market share in this sector. We believe that once the issues with IT spending in Financial Services are resolved, the industry will once again lead in the adoption of information applications both inside and outside the firewall.

Increasing subscription-based business both on premise and in the cloud.

Continuing to build out and deliver on the roadmap of applying BIRT to additional data sources including hard to reach print stream data by investing in the development of BIRT based Content services offerings.

Continuing to build out and deliver on the roadmap of Customer Communications Management capabilities by integrating Content Services offerings including those from legodo into BIRT iHub.

Continuing to build out and deliver on the roadmap of BIRT Analytics capabilities by integrating Quiterian offerings into the BIRT iHub.

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

***Critical Accounting Policies, Judgments and Estimates***

The discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that can have a significant impact on the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. We base our estimates, assumptions and judgments on historical experience, future expectations, and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On a regular basis we evaluate our estimates, assumptions and judgments and make changes accordingly. We believe that the estimates, assumptions and judgments involved in revenue recognition, allowances for doubtful accounts, stock-based

compensation, accounting for income taxes, restructuring, allocation of purchase price of acquisitions, and the impairment of goodwill, have the greatest potential impact on our Condensed Consolidated Financial Statements, so we consider these to be our critical accounting policies.

For further information about our significant accounting policies, see the discussion under Item 7 to the annual consolidated financial statements as of and for the year ended December 31, 2013, as filed with the SEC on Form 10-K on March 7, 2014.

| | Three Months Ended June 30, (in thousands except per share data) | | | |
|---|---|---|---|---|
| | **2014** | **2013** | **$ Change** | **% Change** |
| **Financial Summary** | | | | |
| Total revenues | $ 26,513 | $ 34,902 | $ (8,389) | (24)% |
| Total operating expenses | 29,046 | 32,672 | (3,626) | (11)% |
| (Loss) income from operations | (2,533) | 2,230 | (4,763) | (214)% |
| Operating margins | (10)% | 6% | | |
| Net (loss) income | $ (2,332) | $ 1,313 | $ (3,645) | (278)% |

Table of Contents

| | Three Months Ended June 30, (in thousands except per share data) | | | |
|---|---|---|---|---|
| | 2014 | 2013 | $ Change | % Change |
| Diluted net (loss) income per share | $ (0.05) | $ 0.03 | $ (0.08) | |
| Shares used in diluted per share calculation | 46,692 | 50,471 | | |

*Financial Performance Summary for the quarter ended June 30, 2014 compared to June 30, 2013:*

Significant decrease in license revenues across all product groups and all geographies partially driven by a decrease in transactions greater than $1 million,

Improving maintenance revenues from our BIRT business. Higher professional services revenues in EMEA due primarily to our acquisition of legodo that was completed at the end of January 2014.

Continued momentum toward subscription-based transactions.

***Results of Operations***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| License fees | 28% | 46% | 27% | 45% |
| Services | 72 | 54 | 73 | 55 |
| Total revenues | 100 | 100 | 100 | 100 |
| Costs and expenses: | | | | |
| Cost of license fees | 2 | 2 | 2 | 2 |
| Cost of services | 15 | 13 | 15 | 14 |
| Sales and marketing | 44 | 41 | 45 | 40 |
| Research and development | 23 | 18 | 26 | 18 |
| General and administrative | 24 | 18 | 24 | 17 |
| Amortization of other purchased intangibles | 1 | 1 | 1 | 1 |
| Restructuring charges | 1 | 1 | 1 | 1 |
| Total costs and expenses | 110 | 94 | 114 | 93 |
| (Loss) Income from operations | (10) | 6 | (14) | 7 |

| | | | | |
|---|---|---|---|---|
| Interest income and other income/(expense), net | 1 | | 1 | |
| (Loss) Income before income taxes | (9) | 6 | (13) | 7 |
| Provision for (benefit from) income taxes | | 2 | (2) | 1 |
| Net (loss) income | (9)% | 4% | (11)% | 6% |

Table of Contents

*Revenues*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| **Revenues** | | | | | | | | |
| License fees | $ 7,335 | $ 16,155 | $ (8,820) | (55)% | $ 13,553 | $ 31,635 | $ (18,082) | (57)% |
| Services | 19,178 | 18,747 | 431 | 2% | 37,046 | 38,185 | (1,139) | (3)% |
| **Total Revenues** | **$ 26,513** | **$ 34,902** | **$ (8,389)** | **(24)%** | **$ 50,599** | **$ 69,820** | **$ (19,221)** | **(28)%** |
| **% of Revenue** | | | | | | | | |
| License fees | 28% | 46% | | | 27% | 45% | | |
| Services | 72% | 54% | | | 73% | 55% | | |
| **Total Revenues** | **100%** | **100%** | | | **100%** | **100%** | | |

*License fees*. The decrease in license revenues for the second quarter of fiscal 2014 over the same period in the prior year was due primarily to a significant decrease in license sales in North America and EMEA. This decrease was driven by a sharp reduction in the volume of transactions with a license component in excess of $1 million. In the second quarter of 2013, we closed three transactions with a license component in excess of $1 million, while no such transactions were completed during the second quarter of 2014. We believe that this reflects the change in customer s purchasing behavior for enterprise software which appears to favor a subscription-based model. Subscriptions generally carry a higher lifetime value due to their recurring nature but possess a lower initial dollar value. Based on this shift and our recent improvements in subscription bookings, we have accelerated our adoption of a subscription based licensing model for our products. These subscription-based transactions are recognized to revenue in equal monthly installments over the term of the subscription agreement, which generally span between one to three years. We are currently transitioning to the subscription model and expect this transition to be substantially complete by 2017. As a result, we expect to derive an increasing portion of our future revenues from subscriptions for our products. We continue to experience a decrease in bookings associated with our legacy e.Report business, as we transition to newer BIRT based products along with a decrease in our BIRT iHub OEM transactions. Compliance related transactions which typically carry a significant license component also decreased during the quarter. Foreign currency exchange attributed to international license revenues was minimal during the second quarters of fiscal 2014 and fiscal 2013.

These negative trends in license revenues experienced during the quarter were partially offset by an increase in our subscription-based business in the second quarter of 2014 marked by a third consecutive quarter of over $1 million in subscription bookings. We are also seeing a shift in customer s purchasing behavior for enterprise software which appears to favor a subscription-based model. Based on this shift and our recent improvements in subscription bookings, we have accelerated our adoption of a subscription based licensing model for our products. We are currently transitioning to the subscription model and expect this transition to be substantially complete by 2017. As a result, we expect to derive an increasing portion of our future revenues from subscriptions for our products. The subscription model provides more flexibility for our customers to use our software and we believe is in line with current market trends. We believe subscription-based license should provide an easier adoption of commercial software for open

source BIRT users and provide our customers with timely access to Actuate s latest product releases.

For the first half of 2014, license revenues decreased 57% or approximately $18.1 million compared to the first half of 2013. This decrease was driven by a 73% or approximately $9.2 million decrease in our legacy e.Report business, as we transition to newer BIRT based products along with a decrease in our BIRT iHub OEM transactions and our Content Service Group license revenues due to the transition of our business from iServer to iHub, the transition to a subscription model, and lower compliance related transactions, which typically carry a significant license component.

Fluctuations in foreign currency exchange rates positively impacted our license revenues by approximately $130,000 for the first half of fiscal 2014.

Table of Contents

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

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| **License Revenues** | | | | | | | | |
| North America | $ 5,350 | $ 12,160 | $ (6,810) | (56)% | $ 9,573 | $ 24,900 | $ (15,327) | (62)% |
| Europe Middle East, and Africa (EMEA) | 1,331 | 3,545 | (2,214) | (62)% | 3,052 | 5,912 | (2,860) | (48)% |
| Asia Pacific and others | 654 | 450 | 204 | 45% | 928 | 823 | 105 | 13% |
| **Total** | **$ 7,335** | **$ 16,155** | **$ (8,820)** | **(55)%** | **$ 13,553** | **$ 31,635** | **$ (18,082)** | **(57)%** |
| % of total revenue | 28% | 46% | | | 27% | 45% | | |

*Services*. Services revenues are comprised of maintenance and support, professional services, and training. The 2% increase in services revenues was driven primarily by higher legodo related maintenance and professional services revenues in EMEA. Although our baseline maintenance renewals continue to strengthen, overall maintenance revenue declined from the previous year because second quarter of 2013 was positively impacted by transactions with customers that were not in full compliance with the provisions of their respective licensing agreements with Actuate. These transactions which typically include back maintenance, did not recur to the same degree in the second quarter of 2014. In addition, the cumulative impact effect of prior maintenance declines continues to depress the maintenance renewal revenues. Our maintenance renewal decline rate improved from 17% in the second quarter of 2013 to 9% in the second quarter of 2014.

It is important to note that we are transitioning from our legacy e.Reports product suite to our new BIRT based product offering. As our legacy products age, we have experienced higher than normal decline rates which may continue for the foreseeable future. In the meantime, BIRT is expected to become the dominant contributor to license and maintenance revenues. As this transition progresses, we have begun to see our maintenance renewal decline rate improve significantly which should result in stronger maintenance growth rates in the future.

The decrease in maintenance revenues were partially offset by higher subscription and hosting revenues in North America and EMEA.

For the first half of fiscal year 2014, the underlying reasons for the changes in the various components of our services revenues were similar to those experienced during the quarter as noted above. Fluctuations in foreign currency exchange rates positively impacted our services revenues by approximately $340,000 for the first half of fiscal 2014.

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

| | Three Months Ended (In thousands) | Six Months Ended (In thousands) |
|---|---|---|

| | June 30, | | | | June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| **Services Revenues** | | | | | | | | |
| North America | $ 14,461 | $ 14,571 | $ (110) | (1)% | $ 27,632 | $ 29,652 | $ (2,020) | (7)% |
| EMEA | 3,896 | 3,275 | 621 | 19% | 7,722 | 6,681 | 1,041 | 16% |
| Asia Pacific and others | 821 | 901 | (80) | (9)% | 1,692 | 1,852 | (160) | (9)% |
| **Total Services** | **$ 19,178** | **$ 18,747** | **$ 431** | **2%** | **$ 37,046** | **$ 38,185** | **$ (1,139)** | **(3)%** |
| % of total revenue | 72% | 54% | | | 73% | 55% | | |

By region, North America accounted for approximately 75% of the total services revenues in the second quarter of fiscal 2014 while EMEA and Asia Pacific accounted for 21% and 4% of the total services revenues, respectively. For the same period last year, North America accounted for approximately 78% of the total services revenues while the EMEA and Asia Pacific regions accounted for 17% and 5% of the total services revenues, respectively. The increase in international services revenues for the first half of 2014 was mostly due to service revenues from our acquisition of legodo that was completed at the end of January 3014. Fluctuations in foreign currency exchange rates positively impacted our services revenues by approximately $190,000 for the second quarter of fiscal 2014.

Table of Contents

***Costs and Expenses***

*Cost of license fees*

| | Three Months Ended (In thousands) June 30, | | Variance | Variance | Six Months Ended (In thousands) June 30, | | Variance | Variance |
|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **$ s** | **%** | **2014** | **2013** | **$ s** | **%** |
| Cost of license fees | $ 512 | $ 551 | $ (39) | (7)% | $ 996 | $ 1,124 | $ (128) | (11)% |
| % of license revenue | 7% | 3% | | | 7% | 4% | | |

Cost of license fees consists primarily of product packaging, documentation, production costs and the amortization of purchased technology. The decrease in cost of license fees for the second quarter and the first half of 2014, compared to the corresponding period was due to lower compensation cost due to a reduced average headcount as well as lower documentation and production cost during the second quarter and the first half of 2014 compared to the second quarter and the first half of 2013. These reductions in cost were partially offset by increased amortization of purchased technologies associated with the legodo acquisition, which we completed in January 31, 2014. We expect our cost of license fees, as a percentage of revenues from license fees, to remain between 6% and 8% of revenues from license fees for the remainder of fiscal 2014.

*Cost of services*

| | Three Months Ended (In thousands) June 30, | | Variance | Variance | Six Months Ended (In thousands) June 30, | | Variance | Variance |
|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **$ s** | **%** | **2014** | **2013** | **$ s** | **%** |
| Cost of services | $ 3,869 | $ 4,431 | $ (562) | (13)% | $ 7,436 | $ 9,414 | $ (1,978) | (21)% |
| % of services revenue | 20% | 24% | | | 20% | 25% | | |

Cost of services consists primarily of personnel and related costs, share-based compensation, facilities costs incurred in providing software maintenance and support, training and consulting services, as well as third-party costs incurred in providing training and consulting services. The decrease in cost of services for the second quarter of 2014, compared to the same period last year was driven by lower employee compensation cost. Average headcount of support and consulting personnel was lower by approximately 24% or 24 employees in the second quarter of 2014 compared to the second quarter of 2013 as we continue to reduce costs and align to market conditions. This reduction was partially offset by the increased compensation associated with the addition of 6 employees in Europe from our acquisition of legodo. Currently we expect our cost of services expenses as a percentage of total services revenues to be in the range of 19% to 20% of total services revenues for the remainder of fiscal 2014.

For the six months ended June 30, 2014, the underlying reasons for the changes in the various components of our cost of services were similar to those experienced during the quarter as noted above. Currently we expect our cost of services expenses as a percentage of total services revenues to be in the range of 24% to 25% of total services revenues for the remainder of fiscal 2014.

*Sales and marketing*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| Sales and marketing | $ 11,538 | $ 14,316 | $ (2,778) | (19)% | $ 22,901 | $ 28,090 | $ (5,189) | (18)% |
| % of total revenue | 44% | 41% | | | 45% | 40% | | |

Table of Contents

Sales and marketing expenses consist primarily of salaries, commissions, share-based compensation and bonuses earned by sales and marketing personnel, promotional expenses, travel, entertainment and facility costs. Our overall sales and marketing expense decreased in the second quarter of 2014 compared to the corresponding period in the prior year due to approximately $1.7 million decrease in commissions, bonuses and sales-related travel as we experienced a 55% reduction in global license sales in the second quarter of 2014 compared to the second quarter of 2013. We also experienced a decrease in employee salaries, benefits, and related costs of approximately $670,000 as our average sales and marketing headcount decreased by 12%, or 27 employees compared to the second quarter of 2013. These reductions in headcount were primarily in marketing and due to a reduction-in-force that we implemented in the second half of 2013 to better align our cost structure with market demand for our products. The headcount reductions as well as lower lead-generation and public relation campaigns accounted for approximately $460,000 of the second quarter 2014 decrease in marketing expense compared to the corresponding period in the prior year. Partially offsetting these decreases was an increase in expense driven by the acquisition of legodo, which resulted in the addition of 6 employees in Europe.

For the six months ended June 30, 2014, the underlying reasons for the changes in the various components of our sales and marketing expense were similar to those experienced during the quarter as noted above. We currently expect our sales and marketing expenses to increase as a percentage of total revenue from the current levels as we anticipate higher sales capacity for the remainder of fiscal 2014.

*Research and development*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| Research and development | $ 6,218 | $ 6,382 | $ (164) | (3)% | $ 13,279 | $ 12,942 | $ 337 | 3% |
| % of total revenue | 23% | 18% | | | 26% | 18% | | |

Research and development costs consist primarily of personnel and related costs, including share-based compensation, associated with the development of new products, enhancement of existing products, quality assurance and testing. The overall decrease in research and development expense compared to the corresponding period in the prior year was due primarily to the closure of our Shanghai, China product development facility that was effective January 31, 2014 and resulted in the termination of approximately 50 employees. As a result, in the second quarter of 2014, we did not incur research and development expenses associated with the Shanghai facility. This decrease was partially offset by higher employee compensation and related costs associated with our January 31, 2014 acquisition of legodo, which resulted in the addition of 15 research and development employees.

For the six months ended June 30, 2014, the overall increase in research and development expenses was driven primarily by the severance and termination payments associated with the China closure which were classified as on-going benefits arrangements and were thereby charged to research and development as employee compensation expense in the first quarter of 2014. Additionally, in the first half of 2014 we experienced higher employee compensation and related costs from our acquisition of legodo. These increases were partially offset by lower employee compensation and related expenses as our core research and development headcount decreased by an average of 8% or 11 employees during the first half of 2014 compared to the first half of 2013. We expect our research and development expenses as a percentage of total revenues to be in the range of 20% to 25% of total

revenues for the remainder of fiscal 2014.

*General and administrative*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| General and administrative | $ 6,344 | $ 6,168 | $ 176 | 3% | $ 12,037 | $ 12,048 | $ (11) | % |
| % of total revenue | 24% | 18% | | | 24% | 17% | | |

General and administrative expenses consist primarily of personnel costs, share-based compensation costs and related costs for finance, human resources, information systems and general management, as well as legal, bad debt and accounting

Table of Contents

expenses. The increase in general and administrative expenses in the second quarter of 2014 compared to the corresponding period in the prior year was due primarily to higher legal fees related to contract compliance matters pursued during the quarter. These increases were offset by lower bonus and share-based compensation expenses.

For the six months ended June 30, 2014, the decrease in general and administrative expenses in absolute dollars compared to the corresponding period was not significant. We expect our general and administrative expenses as a percentage of total revenues to be in the range of 20% to 25% for the remainder of fiscal 2014.

*Amortization of other purchased intangibles*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| Amortization of other purchased intangibles | $ 364 | $ 301 | $ 63 | 21% | $ 707 | $ 564 | $ 143 | 25% |
| % of total revenue | 1% | 1% | | | 1% | 1% | | |

The increase in amortization expense during the second quarter and six months of 2014 compared to the corresponding periods in the prior year was due to the amortization of legodo intangibles which we started amortizing effective February 2014. We continue to amortize the intangible assets purchased through the acquisitions of legodo, Quiterian and Xenos on a straight-line basis over their estimated useful lives of seven years. For the remainder of fiscal 2014, we expect amortization expense related to purchased intangible assets to remain within the same levels for the remainder of fiscal 2014.

*Restructuring charges*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| Restructuring | $ 201 | $ 523 | $ (322) | (62)% | $ 307 | $ 591 | $ (284) | (48)% |
| % of total revenue | 1% | 1% | | | 1% | 1% | | |

The restructuring charges incurred during the second quarter and the first six months of 2014 were partially related to the closure of our Shanghai, China operation, which was effective January 31, 2014 as well as updates to our estimates of sublease income related to our idle facility in Toronto Canada.

The restructuring charges incurred during the second quarter and the first six months of 2013 were primarily related to the restructuring of our Performance Management Group in North America during the second quarter of 2013 which included employee severance and benefits charges as well as an idle facility write-off.

Historically, restructuring charges have included costs associated with reductions in workforce, exits of idle facilities and disposals of fixed assets. These restructuring charges were based on actual and estimated costs incurred including

estimates of sublease income on portions of our idle facilities that we periodically update based on market conditions and in accordance with our restructuring plans. These estimates were impacted by the rules governing the termination of employees, especially those in foreign countries.

Table of Contents

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

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| Interest income and other income (expense), net | $ 40 | $ (290) | $ 330 | 114% | $ 95 | $ 180 | $ (85) | (47)% |
| Foreign exchange gain | 361 | 307 | 54 | 18% | 220 | 137 | 83 | 61% |
| Total interest income and other income (expense), net | 401 | 17 | 384 | 2,259% | 315 | 317 | (2) | (1)% |
| Interest expense | $ (15) | $ (60) | $ 45 | (75)% | $ (28) | $ (120) | $ 92 | (77)% |

Interest income and other income/(expense), net increased during the second quarter of 2014 as a result of currency exchange gains related to favorable revaluation of net monetary balances in Europe and North America as the European currencies stabilized against the Swiss Franc and the U.S. Dollar strengthened against the Canadian Dollar.

For the six months ended June 30, 2014, the underlying reasons for the changes in the various components of interest income and other income/(expense), net were similar to those experienced during the quarter as noted above.

*Provision for (Benefit from) income taxes*

| | Three Months Ended (In thousands) June 30, | | | | Six Months Ended (In thousands) June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance $ s | Variance % | 2014 | 2013 | Variance $ s | Variance % |
| Provision for (benefit from) income taxes | $ 185 | $ 874 | $ (689) | (79)% | $ (1,075) | $ 912 | $ (1,987) | (218)% |
| Effective tax rate | (9)% | 40% | | | 16% | 17% | | |

For the three months ended June 30, 2014, we recorded an income tax provision of approximately $185,000, as compared to an income tax provision of approximately $874,000 for the same period last year. The decrease in the income tax provision for the second quarter of fiscal 2014 as compared to the second quarter of fiscal 2013 is mainly due to losses recorded for the quarter. During the second quarter of fiscal 2014 we recorded a valuation allowance of approximately $171,000 against our Singapore subsidiary s deferred tax assets due to continued losses in the jurisdiction. This one-time discrete tax charge resulted in increased income tax expense for the second quarter of fiscal 2014. The effective rate for the three months ended June 30, 2014 was lower due to Company s projected losses in the U.S. and foreign jurisdictions for fiscal 2014 as compared to projected earnings for the same period of fiscal 2013.

For the six months ended June 30, 2014, we recorded an income tax benefit of approximately $1.1 million as compared to an income tax provision of approximately $912,000 for the same period last year. The decrease in the income tax provision for the six months of fiscal 2014 as compared to the six months of fiscal 2013 is mainly due to losses sustained in fiscal 2014 as compared to profits during the same period in fiscal 2013. The effective rate for the

six months ended June 30, 2014 was lower due to benefitting of projected worldwide losses through the second quarter of fiscal 2014. Also the first quarter 2013 tax provision was reduced due to a tax benefit from the extension of the federal research credit in the first quarter of 2013 and additional changes in the tax law that was not allowed in 2012 because the new tax law was not signed until January 2013. The federal research credit has again expired and is currently unavailable for calendar 2014 and as such, the Company is not benefiting any federal research credits in its estimated annual effective tax rate for 2014.

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

***Liquidity and Capital Resources***

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. The following sections discuss changes in our balance sheet and cash flows, and other commitments on our liquidity and capital resources during the first six months of 2014. This data should be read in conjunction with the Consolidated Statements of Cash Flows.

Table of Contents

| *(dollars in thousands)* | As of June 30, 2014 | As of June 30, 2013 | $ Change | % Change |
|---|---|---|---|---|
| Cash, cash equivalents and short-term investments | $ 59,423 | $ 73,993 | $ (14,570) | (20)% |
| Working capital | $ 34,178 | $ 53,679 | $ (19,501) | (36)% |
| Note payable | $ 268 | $ 830 | $ (562) | (68)% |
| Stockholders equity and non-controlling interest | $ 114,257 | $ 126,562 | $ (12,305) | (10)% |

We hold our cash, cash equivalents and investments primarily in the United States, Switzerland, and Singapore. As of June 30, 2014, approximately $19.8 million of the total of $59.4 million of cash, cash equivalents and short term investments was held by our foreign subsidiaries. Currently, the foreign cash is not available to fund the U.S. operations. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans or cash requirements do not demonstrate a need to repatriate them to fund our U.S. operations.

***Cash flows from operating activities:*** Net cash used in operating activities was $17,000 resulting from net loss of $5.7 million, adjusted for $5.9 million in non-cash charges and $249,000 net change in operating assets and liabilities. The non-cash charges included depreciation and amortization, stock-based compensation, and tax benefits related to stock benefit plans and other non-cash adjustments. Net change in operating assets and liabilities included a decrease in accounts receivables, accrued compensation and other liabilities primarily associated with payments of year-end bonuses and commissions, payments of income and sales tax, payment of annual 401(k) Plan match for fiscal 2013, and payments of accrued audit and legal fees. Days sales outstanding ( DSO ) which is calculated based on revenue for the most recent quarter and accounts receivable as of the balance sheet date remained relatively flat due to decreases in our revenue and accounts receivable balance. DSO decreased by 13 days from 69 days at June 30, 2013 to 56 days at June 30, 2014. This decrease in the DSO is primarily attributed to lower accounts receivable balance which resulted from strong collections and decreased billings at the end of second quarter 2014. Our cash flows were also negatively impacted by the decrease in deferred revenue balance during the first half of 2014. We continue to closely monitor the credit quality and payment history of our existing and new customers to better identify and minimize, in advance, the risk of our customers potential inability to make required payments.

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. Our overall maintenance revenues comprised 66% of our total revenues in the first six months of fiscal 2014 and we believe that future proceeds from maintenance renewals will be one of our primary sources of operating cash flows. Our operating cash flows are also impacted by the timing of payments to our vendors for accounts payable and other liabilities. 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.

***Cash flows from investing activities:*** The changes in cash flows from investing activities primarily relate to the timing of purchases, maturities and sales of our investments in marketable securities. We also use cash to invest in capital and other assets to support our growth. Cash provided by investing activities for the six months ended June 30, 2014 was approximately $4.3 million compared with cash used of $4.3 million for the same period in fiscal 2013. The increase in cash provided in the first six months of this year was mainly due to the timing of purchases and maturities of marketable securities, partially offset by cash used in the acquisition of legodo ag, which totaled $3.9 million, net of acquired cash.

***Cash flows from financing activities:*** Cash used in financing activities was $16.1 million for the six months ended June 30, 2014 compared to $5.4 million used during the same period in fiscal 2013. This increase in cash outflows

was driven by debt related payments totaling approximately $4.8 million during the first quarter of 2014. Approximately $4.3 million of the total debt payment was made in the first quarter of 2014 related to the legodo acquisition. The legodo debt was assumed by Actuate at the time of acquisition and was paid in full immediately following the completion of the acquisition. We also repaid one of the two loans which we inherited from our acquisition of Quiterian totaling approximately $0.5 million. The loans were previously executed to finance the development of the Quiterian software. Payments related to share buybacks increased by approximately $3 million as a result of additional buybacks in the second quarter of 2014, partially offset by lower proceeds from exercise of employee stock options and associated tax benefits during the first six months of 2014 compared with the first six months of 2013.

Table of Contents

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

**Contractual Obligations and Commercial Commitments**

***General***

The Company is engaged in certain legal actions arising in the ordinary course of business. Although there can be no assurance as to the outcome of such litigation, the Company believes it has adequate legal defenses and it believes that neither the ultimate outcome of any of these actions nor ongoing litigation costs will not have a material effect on the Company s consolidated financial position or results of operations.

***Revolving credit line***

During the second quarter of 2013, following a comparative evaluation of its credit facility, the Company decided to change to another vendor to service its borrowing needs. As a result, the Company terminated its existing credit agreement with Wells Fargo Capital Finance ( WFCF ) and on June 30, 2013 entered into a new revolving credit agreement with U.S. Bank National Association ( US Bank ) through and until June 29, 2017. The Company intends to use the proceeds from the Credit Agreement for working capital, acquisitions, issuance of commercial and standby letters of credit, stock repurchases, capital expenditures and other general corporate purposes.

The new Credit Agreement with US Bank allows for cash borrowings and the issuance of letters of credit under a secured revolving credit facility up to a maximum of $50 million. Interest accrues based on, at the Company s election, (i) LIBOR plus an applicable spread based on the Company s consolidated total cash flow leverage ratio or (ii) the greater of: (a) the Federal Funds Effective Rate plus one half of one percent, (b) one month LIBOR plus one percent, and (c) U.S. Bank s prime rate, in each case plus an applicable spread based on the Company s consolidated total cash flow leverage ratio. The Company is required to make interest payments on a monthly basis.

Following the termination of its agreement with WFCF, the Company wrote-off all remaining unamortized costs related to the old credit facility totaling approximately $188,000 in the second quarter of 2013. Costs related to the new credit facility with US Bank were not significant.

As of June 30, 2014, there was no balance owed on the credit facility and the balance available under the revolving credit facility was $50 million.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| (In thousands): | | | | |
| Amortization of debt issuance costs | $ 5 | $ 20 | $ 10 | $ 40 |
| Unused line fees | | 37 | | 75 |

| | | | |
|---|---|---|---|
| $ 5 | $ 57 | $ 10 | $ 115 |

The Credit Agreement with US Bank contains covenants, which, among other things, impose certain limitations with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens and encumbrances. The Company is also required to maintain the two financial covenants listed below:

Consolidated total cash flow leverage ratio not to exceed 2.50 to 1.00, and

A fixed charge coverage ratio of not less than 1.75 to 1.00.

The indebtedness under the Credit Agreement is secured by (i) substantially all of the personal property (whether tangible or intangible) of Actuate Corporation and Actuate International Holding Company (as guarantor) as well as the proceeds generated by that property and (ii) by a pledge of all of its stock and a portion of the stock of certain of its subsidiaries.

Table of Contents

***Notes payable***

Associated with the acquisition of Quiterian on October 16, 2012, the Company inherited two loan agreements that were previously executed to finance the development of the Quiterian software. The loans were offered by the Spanish government subsidy programs and are restricted for use on development of the software. One of the loans is interest free and has a principal balance of approximately $0.5 million. This loan was repaid in March of 2014. The other loan is a variable rate loan with an average rate of approximately 5% and a principal balance of approximately $0.4 million. This loan is scheduled for repayment on a quarterly basis starting June 2014 and ending December 2016 and is classified as notes payable on the Company s Condensed Consolidated Balance Sheet at June 30, 2014.

***Operating Lease Commitments***

On November 28, 2011, the Company entered into a ten year lease agreement with a third party for approximately 58,000 square feet of office space in the BayCenter Campus in San Mateo, California. This lease is operating in nature and commenced on June 1, 2012 and will end on May 31, 2022. In addition, the lease provides for four months of free rent (rent holiday) and approximately $2.6 million in landlord incentives to be applied towards construction of improvements. At June 30, 2014, the deferred rent liability balance related to the new lease totaled approximately $3.3 million and this balance declines through May 2022 when contractual cash payments exceed the straight-line lease expense. Of this total deferred rent liability balance, approximately $260,000 was classified as short term and $3.1 million was classified as other long term liabilities on the Company s Condensed Consolidated Balance Sheet at June 30, 2014. Actuate is using the BayCenter Campus as its corporate headquarters.

Upon the execution of the new lease, Actuate delivered to the new landlord two letters of credit totaling $225,300. These letters of credit guarantee Actuate s contractual obligations related to the BayCenter Campus in San Mateo, California.

In fiscal 2012, the Company entered into a new lease agreement for one of its sales locations in Europe. Upon the execution of the new lease, Actuate delivered to the new landlord a letter of credit for approximately $88,000 in order to guarantee its contractual obligations related to this lease.

Actuate leases smaller office facilities in various locations in the United States and abroad. All facilities are leased under operating leases. Total rent expense for the second quarter and first six months of fiscal 2014 was approximately $1.1 million and $2.2 million, respectively, compared with rent expense of approximately $1.1 million in second quarter and $2.2 million in the first six months of fiscal 2013. In addition, the Company incurred facility related charges of approximately $157,000 and $360,000 in the second quarter and the first six months of fiscal 2014, respectively. During the same period last year, the Company incurred approximately $144,000 and $313,000 of facilities related charges in the second quarter and the first six months of fiscal 2013, respectively.

The following table summarizes the Company s contractual obligations as of June 30, 2014 (in thousands):

| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | Thereafter |
|---|---|---|---|---|---|
| Obligations: | | | | | |
| Operating leases [1] | $ 29,492 | $ 4,161 | $ 7,292 | $ 6,834 | $ 11,205 |
| Interest and loan obligations [2] | 463 | 222 | 241 | | |
| Obligations for uncertain tax positions [3] | 2,386 | | 2,386 | | |

| | | | | | |
|---|---|---|---|---|---|
| **Total** | $ 32,341 | $ 4,383 | $ 9,919 | $ 6,834 | $ 11,205 |

(1) The Company s future contractual obligations include minimum lease payments under operating leases at June 30, 2014.

(2) Estimated interest and principal due on the notes payable funded by the Spanish government for the development of Quiterian software.

(3) Represents the tax liability associated with unrecognized tax benefits estimated to be payable between 1 to 3 years. In addition, as of June 30, 2014, our unrecognized tax benefits included $2 million which is netted against deferred tax assets. At this time, we are unable to make a reasonably reliable estimate of the timing of payments related to the amounts netted against deferred tax assets, if any, in individual years due to uncertainties in the timing or outcomes of either actual or anticipated tax audits. As a result, these amounts are not included in the table above. See discussion on the authoritative guidance issued by the FASB on obligations for uncertain tax positions in Note 12 of our Notes to these Consolidated Financial Statements of our Form 10-K for fiscal year 2013 filed with the SEC on March 7, 2014.

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

*Foreign Currency Exchange Risk*. During the first six months of fiscal years 2014 and 2013 we derived 26% and 22% of our total revenues from sales outside of North America, respectively. We face exposure to market risk on the related receivables with respect to fluctuations in the relative value of currencies. Our international revenues and expenses are denominated in foreign currencies, principally the Euro and the British Pound Sterling. The functional currency of each of our foreign subsidiaries is the local currency. We are also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, transaction gains and losses may vary from expectations and adversely impact overall expected profitability. Our realized gain due to foreign exchange rate fluctuations was approximately $220,000 during the first six months of fiscal 2014 compared to gains of approximately $137,000 for the first six months of fiscal 2013. During the first six months of fiscal 2014, exchange rate fluctuations on foreign revenue transactions positively impacted our total revenues by approximately $470,000 when compared to the same period in the prior year while expenses were negatively impacted by approximately $550,000.

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

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

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

We then translated the revaluation result as described above to U.S. Dollars using the latest quarter average exchange rate. This resulted in hypothetical revaluation gains or (losses) before income taxes. These hypothetical results are summarized in the table below as of June 30, 2014:

| Estimated annual changes in currency exchange (in thousands) | | | | | |
|---|---|---|---|---|---|
| **15%** | **10%** | **5%** | **+5%** | **+10%** | **+15%** |
| $(1,067) | $(712) | $(356) | $356 | $712 | $1,067 |

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

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

investments in investment grade securities and the amount of credit exposure to any one issuer.

We sell primarily to customers in the financial services industry, predominantly in the United States and Europe. Accordingly, unfavorable economic conditions adversely impacting the financial services industry has had a material adverse effect on the Company s business, financial condition and results of operations. For example, the financial services industry has experienced and may continue to experience cyclical fluctuations in profitability, which may affect timing of, or actual purchases of, our products which would have a material adverse effect on the our business, financial condition and results of operations. There were no customers that accounted for more than 10% of total revenues in the six months ended June 30, 2014 or 2013.

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

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

*European Debt Exposures*. We actively monitor our exposure to the European markets, including the impact of sovereign debt issues associated with Greece, Ireland, Portugal, Italy and Spain. As of June 30, 2014, we do not have any direct or indirect investments in the sovereign debt, corporations, or financial institutions of these countries.

Table of Contents

**ITEM 4. CONTROLS AND PROCEDURES**

**a) Evaluation of Disclosure Controls and Procedures**

As of June 30, 2014 (the Evaluation Date), Actuate Corporation carried out an evaluation under the supervision and with the participation of Actuate management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Actuate disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under 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 objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2014, (1) Actuate disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) Actuate 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 is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to Actuate management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

**(b) Changes in Internal Control over Financial Reporting**

There were no changes in the Company s internal control over financial reporting during the three months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

## Part II. Other Information

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

***STOCK MAY DECREASE SIGNIFICANTLY.***

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

Demand for its products;

The size and timing of significant orders for its products;

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

Table of Contents

Competition from products directly competitive with its products;

Lost revenue from introduction or market acceptance of open source products 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 software similar in functionality to the Company s 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 cost, outcome or publicity surrounding any pending or threatened lawsuits;

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

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

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

Budgeting cycles of its customers;

Failure to successfully manage acquisitions and integrate acquired companies;

Defects in products and other product quality problems;

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

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

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

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

Potential impairments of goodwill, intangibles and other investments.

Table of Contents

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

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

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

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

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

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

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

***IF WE FAIL TO SUCCESSFULLY MANAGE OUR BUSINESS MODEL TRANSITION TO SUBSCRIPTION-BASED LICENSING, OUR RESULTS OF OPERATIONS WILL BE MATERIALLY NEGATIVELY IMPACTED.***

To address the industry transition from perpetual licensing to subscription licensing, and to fuel the growth of our business in the long term, we have accelerated our adoption of a subscription based licensing model for our products. We are currently transitioning to the subscription model and expect this transition to be substantially complete by 2017. As a result, we expect to derive an increasing portion of our revenues from subscriptions for our products. This subscription model prices and delivers our products in a way that differs from our historical pricing method, which was predominantly a perpetual sales model as our customers purchases trend away from perpetual licenses toward subscriptions. In the short-term we will experience a deferral of revenues and lower initial cash inflows from our customers as the timing of the revenue recognition for subscription licenses is ratable, as opposed to a primarily up-front revenue treatment for perpetual licenses. We could also potentially experience operating losses as a result of this transition. While we intend to increase our number of customers and projects over time as a result of this transition, our ability to achieve these objectives is subject to risks and uncertainties. The risks and uncertainties include the following, among others:

- The new offerings may require a considerable investment of financial, legal, sales and administrative resources, and a more scalable organization.

Table of Contents

Market acceptance of subscription licensing may be affected by a variety of factors, including but not limited to license terms, customer preference and pricing.

Renewal rates of our subscription contracts

Channel acceptance

Customer s willingness to license our products on a subscriptions basis

The ability of sales and other personnel to operate a subscription sales model.

The metrics we use to gauge the status of our business model transition may evolve over the course of the transition as significant trends emerge. If we are unable to successfully establish these new metrics and navigate our business model transition in light of the foregoing and other currently unknown risks and uncertainties, our results of operations will be materially negatively impacted.

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

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

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

The Company s business is highly competitive, and as such, its growth is dependent upon its ability to expand its market, enhance its existing products, introduce new products on a timely basis and expand its distribution channels and professional services organizations. In order to achieve these objectives, the Company had pursued and will continue to pursue acquisitions of other companies.

Generally, acquisitions 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 loss of recurring revenue from multiple subsidiaries of one large multi-national organization or the ability to sell and support certain third party software.

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

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

Table of Contents

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

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

The potential loss of key employees of the acquired company.

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

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

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

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

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

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

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

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

***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 26%, 22% and 27% for the first six months of fiscal years 2014, 2013 and 2012, respectively. Its ability to achieve revenue growth in the future will depend in large part on its success in increasing revenues from international sales. The Company intends to continue to invest significant resources to expand its sales and support operations outside North America and to potentially enter additional international markets. In order to expand international sales, the Company must establish additional foreign operations, expand its international channel management and support organizations, hire additional personnel, recruit additional

Table of Contents

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 materially harmed.

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

To date, the Company has sold its products principally through its direct sales force, as well as through indirect sales channels, such as its OEMs, resellers and systems integrators. The Company s revenues from license fees resulting from sales through indirect channel partners were approximately 19%, 43%, and 35% of total revenues from license fees for the first six months of fiscal years 2014, 2013 and 2012, 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 the Company s technology into their products, or if it fails to train the sales and customer support personnel of such indirect channel partners in a timely or effective fashion, the Company s business, operating results and financial condition would be materially harmed.

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

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

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

- Competition from current or future Business Intelligence, data discovery and Big Data software vendors such as Information Builders, Qlik Tech, Pentaho, Tibco/Jaspersoft, MicroStrategy and Tableau, each of which offers reporting products;

Competition from other large software vendors such as IBM, Microsoft, Oracle and SAP, to the extent they sell BI, Analytics, Customer Communications Management, Big Data and Performance Management capabilities as separate products or include similar functionality with their applications or databases;

Competition from other software vendors and software development tool vendors including providers of open-source software products that may develop scalable custom Business Analytics, Performance Management, Customer Communications Management, Big Data and Information Applications products;

Competition from the IT departments of current or potential customers that may develop scalable custom Business Intelligence, Analytics, Big Data, Performance Management, Customer Communications Management and information applications products internally, which may be cheaper and more customized than the Company s products; and

Competition from Eclipse BIRT and freemium (F-Type). The Company expects that BIRT and F-Type software, which are free, may cannibalize some smaller sales of its custom Big Data, Performance Management and Business Intelligence and information applications products.

Table of Contents

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

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

***IF THE MARKET FOR BUSINESS INTELLIGENCE, ANALYTICS, BIG DATA, PERFORMANCE MANAGEMENT AND CUSTOMER COMMUNICATIONS MANAGEMENT SOFTWARE DOES NOT GROW AS THE COMPANY EXPECTS, ITS BUSINESS WOULD BE SERIOUSLY HARMED.***

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

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

The purchase of the Company s products by its end-user customers for deployment within the customer s organization typically involves a significant commitment of capital and other resources, and is therefore subject to delays that are beyond the Company s control. These delays can arise from a customer s internal procedures to approve large capital expenditures, budgetary constraints, the testing and acceptance of new technologies that affect key operations and

general economic and political events. The sales cycle for initial orders and larger follow-on orders for the Company s products can be lengthy and variable. Additionally, sales cycles for sales of the Company s products to OEMs tend to be longer, ranging from 6 to 24 months or more, and may involve convincing the OEMs entire organization that the Company s products are the appropriate software for their applications. This time period does not include the sales and implementation cycles of such OEMs own products, which can be longer than the Company s sales and implementation cycles. Certain of the Company s customers have in the past, or may in the future, experience difficulty completing the initial implementation of the Company s products. Any difficulties or delays in the initial implementation by the Company s end-user customers or indirect channel partners could cause such customers or partners to reject the Company s software or lead to the delay or non-receipt of future orders for the large-scale deployment of its products, in which case the Company s business, operating results and financial condition would be materially harmed.

Table of Contents

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

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

***DECLINING RENEWAL OF MAINTENANCE SERVICES ON OUR OLDER SOFTWARE SALES PRODUCTS***

The Company has historically experienced a high maintenance renewal rate across its various product lines. As certain of the Company s products age, these renewal rates have not sustained and will continue to decline unless the Company is successful in providing its customers with more advanced functionality and the levels of support that they require. If this trend continues, the Company s business, operating results and financial condition could be materially harmed.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ( Section 404 ), the Company s management is required to report on, and its independent auditors are required to attest to, the effectiveness of the Company s internal controls over financial reporting on an annual basis. The Company s assessment, testing and evaluation of the design and operating effectiveness of its internal control over financial reporting are ongoing. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013, and has concluded that our internal control over financial reporting was effective. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control Integrated Framework*.

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

***THE SUCCESS OF THE COMPANY S OPEN-SOURCE BIRT INITIATIVE IS DEPENDENT ON BUILDING A DEVELOPER COMMUNITY AROUND BIRT AND CONVERTING THEM TO COMMERCIAL OFFERINGS.***

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. The Company must convert some open source BIRT developers to purchasing commercial products. This could increase the Company s development expenses, delay its product releases and upgrades or adversely impact customer acceptance of open source offerings.

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

Table of Contents

Our BIRT onDemand and BIRT Performance Analytics onDemand services involve the storage and transmission of customers proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise, during transfer of data to additional data centers or at any time, and result in someone obtaining unauthorized access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could lead to legal liability.

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

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

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

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

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

Difficulty of managing an organization spread across many countries;

Multiple and conflicting tax laws and regulations;

Costs of localizing products for foreign countries;

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

Trade laws and business practices favoring local competition;

Dependence on local vendors;

Increasing dependence on resellers in certain geographies;

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

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

Longer sales cycles;

Import and export restrictions and tariffs;

Difficulties in staffing and managing foreign operations;

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

Greater difficulty or delay in accounts receivable collection; and

Foreign currency exchange rate fluctuations.

Table of Contents

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 effective in any future foreign exchange hedging transactions in which it engages, the Company s business, operating results and financial condition could be materially harmed.

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

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

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

***CHANGES IN ACCOUNTING PRINCIPLES OR STANDARDS, OR IN THE WAY THEY ARE APPLIED, COULD RESULT IN UNFAVORABLE ACCOUNTING CHARGES OR EFFECTS AND UNEXPECTED FINANCIAL REPORTING FLUCTUATIONS, AND COULD ADVERSELY AFFECT OUR REPORTED OPERATING RESULTS.***

We prepare our condensed consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ( GAAP ). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in existing principles or guidance can have a significant effect on our reported results and may retroactively affect previously reported results. Additionally, proposed accounting standards could have a significant impact on our operational processes, revenues and expenses, and could cause unexpected financial reporting fluctuations.

For example, the Financial Accounting Standards Board ( FASB ) is currently working together with the International Accounting Standards Board ( IASB ) to converge certain accounting principles and facilitate more comparable financial reporting between companies who are required to follow GAAP and those who are required to follow International Financial Reporting Standards ( IFRS ). These efforts may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, revenue recognition, lease accounting, and financial statement presentation. We expect the SEC to make a determination in the near future regarding the incorporation of IFRS into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements and may retroactively adversely affect previously reported transactions.

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

While the Company was profitable in its last ten fiscal years, it incurred net losses during the first half of fiscal 2014 as well as fiscal years 2003, 2002 and 2001. 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. Due to the Company s decision to accelerate the transition to a subscription license model, it is likely we will incur operating losses in future periods.

***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.***

Table of Contents

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

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

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

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

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

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

The Company has a small number of issued and pending U.S. patents expiring at varying times ranging from 2015 to 2030. The Company relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and license keys to protect its proprietary technology. For example, the Company licenses its software pursuant to click-wrap or signed license agreements that impose certain restrictions on licensees ability to utilize the software. In addition, the Company seeks to avoid disclosure of its intellectual property, including by requiring those persons with access to its proprietary information to execute confidentiality agreements with the Company and by restricting access to its source code. The Company takes precautions to protect our software, certain documentation, and other written materials under trade secret and copyright laws, which afford only limited protection.

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

protecting its proprietary rights is not adequate or its competitors independently develop similar technology, the Company s business could be materially harmed.

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

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

Table of Contents

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

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

Actual or anticipated fluctuations in its operating results;

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

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

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

Developments in ongoing or threatened litigation;

Announcements of technological innovations;

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

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

Developments with respect to copyrights or proprietary rights;

Price and volume fluctuations in the stock market;

Changes in corporate purchasing of Business Intelligence, Analytics, Big Data, Performance Management and Customer Communications Management software;

Adoption of new accounting standards affecting the software industry; 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 companies. If the Company is involved in such litigation, it could

result in substantial costs and a diversion of management s attention and resources and could materially harm the Company s business, operating results and financial condition.

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

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

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

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

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

Table of Contents

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

We have also adopted a stockholder rights plan and declared a dividend of one stock purchase right (a Right ) for each outstanding share of common stock of the Company ( Common Shares ). Each Right entitles the registered holder to purchase from the Company one thousandth of a share of the Company s Series A Junior Participating Preferred Stock (the Preferred Shares ) at a price of $25 per one thousandth of a Preferred Share (the Purchase Price ), subject to adjustment. In the event that any person or group owns more than 15% of the Company s outstanding common stock and thereby becomes an Acquiring Person , each holder of a Right, other than Rights beneficially owned by the Acquiring Person, will thereafter have the right to receive upon exercise and payment of the exercise price that number of shares of common stock having a market value of two times the exercise price of the Right. In the event that any person or group becomes an Acquiring Person and the Company merges into or engages in certain other business combinations with any Person, or 50% or more of its consolidated assets or earning power are sold to any Person other than the Company or one of its wholly owned Subsidiaries, each holder of a Right, other than Rights owned by an Acquiring Person (and the affiliates, associates and certain transferees of such Acquiring Person), will thereafter have the right to receive, upon exercise and payment of the exercise price, that number of shares of common stock of the acquiring company that at the time of such transaction will have a market value of two times the exercise price of the Right; provided that, if the Company fails to meet such obligation within 30 days following the date a Person becomes an Acquiring Person, the Company must deliver, upon exercise of a Right but without requiring payment of the exercise price then in effect, Common Shares (to the extent available) and cash equal in value to the difference between the value of the Common Shares otherwise issuable upon the exercise of a Right and the exercise price then in effect.

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

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

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

We rely on our network infrastructure and enterprise applications, internal technology systems and our Website for our development, marketing, operational, support, hosted services and sales activities. A disruption, infiltration or failure of these systems in the event of a major earthquake, fire, power loss, telecommunications failure, software or

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

Table of Contents

**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 June 30, 2014.

**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* | | | | |
| April 1, 2014 through April 30, 2014 | 550,641 | $ 5.81 | 550,641 | $ 14,135,040 |
| *Month #2* | | | | |
| May 1, 2014 through May 31, 2014 | 28,000 | $ 5.61 | 28,000 | 13,977,969 |
| *Month #3* | | | | |
| June 1, 2014 through June 30, 2014 | | $ | | |
| Total | 578,641 | $ 5.80 | 578,641 | |

(1) The Company s stock repurchase program was originally announced in September 2001 and has been extended from time to time by Actuate s Board of Directors. On July 29, 2013, the Board of Directors approved a share repurchase program totaling $40 million over a twelve month period. The timing and amount of any shares repurchased are determined based on the Company s evaluation of market conditions and other factors and the program may be discontinued or suspended at any time. Repurchases are made in compliance with all Securities Exchange Commission (SEC) rules and other legal requirements and are made in part under a Rule 10b5-1 plan, a rule established by the SEC which permits stock repurchases when the Company might otherwise be precluded from doing so. Actuate started purchasing shares under this program effective September 1, 2013.

These repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired.

Subsequent to the May 1, 2014 buyback, the Company announced a temporary suspension of its share repurchase program.

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

At our Annual Meeting of Stockholders held on May 21, 2014, our stockholders approved the following items:

1.

Election of Directors: Our shareholders re-elected the following seven (7) directors to each serve a one-year term expiring on the date of the 2015 annual meeting of shareholders or until his or her successor has been duly chosen and qualified.

| | For | Withheld | Broker Non-Votes |
|---|---|---|---|
| Peter I. Cittadini | 28,402,979 | 1,453,639 | 11,485,050 |
| Kenneth E. Marshall | 26,535,511 | 3,321,107 | 11,485,050 |
| Nicolas C. Nierenberg | 28,449,317 | 1,407,301 | 11,485,050 |
| Raymond L. Ocampo Jr. | 27,041,159 | 2,815,459 | 11,485,050 |
| Arthur C. Patterson | 28,545,662 | 1,310,956 | 11,485,050 |
| Steven D. Whiteman | 26,556,431 | 3,300,187 | 11,485,050 |
| Timothy B. Yeaton | 27,040,959 | 2,815,659 | 11,485,050 |

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

| For | Against | Abstain | Broker Non-Votes |
|---|---|---|---|
| 28,799,293 | 1,007,741 | 49,583 | 11,485,051 |

3. Ratification of Appointment of Independent Registered Public Accounting Firm: Our shareholders ratified the selection of Grant Thornton, LLP as our independent auditors for the year ended December 31, 2014.

Table of Contents

| For | Against | Abstain |
|---|---|---|
| 40,938,833 | 355,952 | 46,883 |

**Item 6. Exhibits**

| | |
|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer |
| 32.1 | Section 1350 Certifications |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

* Filed with this 10-Q.

Table of Contents

**Signature**

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

Actuate Corporation

(Registrant)

Dated: August 7, 2014

By: /s/ DANIEL A. GAUDREAU
**Daniel A. Gaudreau**
**Senior Vice President,**

**Operations and Chief Financial Officer**

**(Principal Financial and Accounting Officer)**