ACI WORLDWIDE, INC.
Form 10-Q
October 29, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from

Commission File Number 0-25346

ACI WORLDWIDE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-0772104** (I.R.S. Employer Identification No.)
120 Broadway, Suite 3350 **New York, New York 10271** (Address of principal executive offices, including zip code)	**(646) 348-6700** (Registrant s telephone number, including area code)

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 þ No o

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of October 27, 2010, there were 33,202,786 shares of the registrant s common stock outstanding.

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ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in thousands, except share and per share amounts)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 143,902	$ 125,917
Billed receivables, net of allowances of $2,892 and $2,732, respectively	71,325	98,915
Accrued receivables	9,163	9,468
Deferred income taxes, net	17,682	17,459
Recoverable income taxes	1,524	
Prepaid expenses	12,580	12,079
Other current assets	12,332	10,224
Total current assets	268,508	274,062
Property and equipment, net	18,099	17,570
Software, net	26,462	30,037
Goodwill	204,615	204,850
Other intangible assets, net	22,130	26,906
Deferred income taxes, net	29,608	26,024
Other noncurrent assets	11,971	10,594
TOTAL ASSETS	$ 581,393	$ 590,043
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 7,364	$ 17,591
Accrued employee compensation	26,236	24,492
Deferred revenue	131,501	106,349
Income taxes payable	604	10,681
Alliance agreement liability	4,243	10,507
Note payable under credit facility	75,000	
Accrued and other current liabilities	26,058	25,780
Total current liabilities	271,006	195,400
Deferred revenue	35,725	31,533
Note payable under credit facility		75,000
Alliance agreement noncurrent liability	20,667	21,980
Other noncurrent liabilities	27,282	30,067
Total liabilities	354,680	353,980

Commitments and contingencies (Note 13)

Stockholders equity				
Preferred stock, $0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 2010 and December 31, 2009				
Common stock, $0.005 par value; 70,000,000 shares authorized; 40,821,516 shares issued at September 30, 2010 and December 31, 2009		204		204
Common stock warrants		24,003		24,003
Treasury stock, at cost, 7,614,545 and 6,784,932 shares outstanding at September 30, 2010 and December 31, 2009, respectively		(173,164)		(158,652)
Additional paid-in capital		311,274		307,279
Retained earnings		78,191		78,094
Accumulated other comprehensive loss		(13,795)		(14,865)
Total stockholders equity		226,713		236,063
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	581,393	$	590,043

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Software license fees	$ 37,804	$ 40,396	$ 98,520	$ 97,649
Maintenance fees	32,480	33,314	100,109	95,168
Services	15,439	20,813	47,244	56,422
Software hosting fees	11,294	9,938	31,310	30,605
Total revenues	97,017	104,461	277,183	279,844
Expenses:				
Cost of software license fees (1)	3,088	3,936	9,269	10,936
Cost of maintenance, services, and hosting fees (1)	28,956	27,959	86,151	83,136
Research and development	18,165	20,071	55,359	58,976
Selling and marketing	17,933	14,911	50,767	45,530
General and administrative	16,341	21,064	49,538	61,433
Depreciation and amortization	5,146	4,577	15,250	13,233
Total expenses	89,629	92,518	266,334	273,244
Operating income	7,388	11,943	10,849	6,600
Other income (expense):				
Interest income	185	117	435	864
Interest expense	(418)	(488)	(1,482)	(1,783)
Other, net	(1,556)	16	(3,452)	(4,719)
Total other income (expense)	(1,789)	(355)	(4,499)	(5,638)
Income before income taxes	5,599	11,588	6,350	962
Income tax expense	3,263	3,829	6,253	897
Net income	$ 2,336	$ 7,759	$ 97	$ 65
Income per share information				
Weighted average shares outstanding				
Basic	33,244	34,012	33,670	34,492
Diluted	33,480	34,170	33,907	34,675

Income per share								
Basic	$	0.07	$	0.23	$	0.00	$	0.00
Diluted	$	0.07	$	0.23	$	0.00	$	0.00

(1) The cost of software license fees excludes charges for depreciation but includes amortization of purchased and developed software for resale. The cost of maintenance, services, and hosting fees excludes charges for depreciation.

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)
(unaudited and in thousands)

	Common Stock	Common Stock Warrants	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2009	$ 204	$ 24,003	$ (158,652)	$ 307,279	$ 78,094	$ (14,865)	$ 236,063
Comprehensive income information:							
Net income					97		97
Other comprehensive income:							
Foreign currency translation adjustments						1,070	1,070
Comprehensive income							1,167
Repurchase of common stock			(18,624)				(18,624)
Issuance of common stock pursuant to Employee stock purchase plan			1,057	(360)			697
Exercises of stock options			4,329	(1,821)			2,508
Tax benefit of stock options exercised				(36)			(36)
Stock-based compensation				5,455			5,455
Forfeiture of non-vested RSAs			(1,141)	1,141			
Non-vested restricted share awards subject to redemption			384	(384)			
Repurchase of restricted stock for tax withholdings			(517)				(517)
Balance as of September 30, 2010	$ 204	$ 24,003	$ (173,164)	$ 311,274	$ 78,191	$ (13,795)	$ 226,713

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	For the Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	$ 97	$ 65
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	5,107	4,761
Amortization	14,671	12,716
Tax expense of intellectual property shift	1,650	1,650
Deferred income taxes	456	(12,894)
Stock-based compensation expense	5,455	6,668
Tax benefit of stock options exercised	275	21
Other	458	651
Changes in operating assets and liabilities, net:		
Billed and accrued receivables, net	22,779	4,380
Other current assets	(1,996)	(1,678)
Other noncurrent assets	(3,455)	964
Accounts payable	(8,201)	(1,911)
Accrued employee compensation	1,534	3,374
Accrued liabilities	(5,389)	(11,502)
Current income taxes	(10,919)	4,733
Deferred revenue	28,704	3,405
Other current and noncurrent liabilities	(2,093)	(3,976)
Net cash flows from operating activities	49,133	11,427
Cash flows from investing activities:		
Purchases of property and equipment	(4,157)	(2,246)
Purchases of software and distribution rights	(6,375)	(4,857)
Alliance technical enablement expenditures	(4,423)	(5,967)
Proceeds from assets transferred under contractual obligations		1,050
Payments of earn-out obligations		(473)
Net cash flows from investing activities	(14,955)	(12,493)
Cash flows from financing activities:		
Proceeds from issuance of common stock	866	965
Proceeds from exercises of stock options	2,508	1,544
Excess tax benefit of stock options exercised	159	79
Purchases of common stock	(18,624)	(15,000)
Repurchase of restricted stock for tax withholdings	(517)	(622)
Payments on debt and capital leases	(1,306)	(1,271)
Distribution to noncontrolling interest	(1,232)	

Net cash flows from financing activities		(18,146)		(14,305)
Effect of exchange rate fluctuations on cash		1,953		5,391
Net increase (decrease) in cash and cash equivalents		17,985		(9,980)
Cash and cash equivalents, beginning of period		125,917		112,966
Cash and cash equivalents, end of period	$	143,902	$	102,986
Supplemental cash flow information				
Income taxes paid, net	$	20,886	$	10,497
Interest paid	$	1,238	$	2,576

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Condensed Consolidated Financial Statements

The unaudited condensed consolidated financial statements include the accounts of ACI Worldwide, Inc. and its wholly-owned subsidiaries (collectively, the Company). All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements at September 30, 2010, and for the three and nine months ended September 30, 2010 and 2009, are unaudited and reflect all adjustments of a normal recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods. The condensed consolidated balance sheet as of December 31, 2009 is derived from the audited financial statements.

The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s annual report on Form 10-K for the fiscal year ended December 31, 2009, filed on February 26, 2010. Results for the three and nine months ended September 30, 2010, are not necessarily indicative of results that may be attained in the future.

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income

The Company s comprehensive income for the three months ended September 30, 2010 and September 30, 2009 was $10.1 million and $9.0 million, respectively. The Company s comprehensive income for the nine months ended September 30, 2010 and September 30, 2009 was $1.2 million and $8.3 million, respectively. The two components of comprehensive income are net income and foreign currency translation adjustments. The foreign currency translation adjustments for the three months ended September 30, 2010 and September 30, 2009 were $7.8 million and $1.2 million, respectively. The foreign currency translation adjustments for the nine months ended September 30, 2010 and September 30, 2009 were $1.1 million and $8.2 million, respectively. Accumulated other comprehensive loss included in the Company s condensed consolidated balance sheet represents the accumulated foreign currency translation adjustment. Since the undistributed earnings of the Company s foreign subsidiaries are considered to be indefinitely reinvested, the components of accumulated other comprehensive loss have not been tax effected.

Note Payable Under Credit Facility

On September 29, 2006, the Company entered into a five year revolving credit facility with a syndicate of financial institutions, as lenders, providing for revolving loans and letters of credit in an aggregate principal amount not to exceed $150 million. The facility has a maturity date of September 29, 2011, at which time any principal amounts outstanding are due. Obligations under the facility are unsecured and uncollateralized, but are jointly and severally guaranteed by certain domestic subsidiaries of the Company. As of September 30, 2010, the revolving credit facility has been classified as current due to the maturity date being within 12 months.

Noncontrolling Interest

On September 21, 2010, the Company dissolved its partnership based in Madrid, Spain with Sistema 4B, S.A. (Sistema). As a result, the Company paid Sistema 1.0 million Euros (approximately $1.2 million) during the nine months ended September 30, 2010. Noncontrolling interest in this partnership of $1.4 million was included in other noncurrent liabilities as of December 31, 2009.

Recently Issued Accounting Standards

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13 and ASU 2009-14, *Revenue Recognition (Topic 605), Multiple Deliverable Revenue Arrangements,* relating to revenue recognition for arrangements with multiple deliverables that do not fall under Accounting Standards Codification (ASC) 605-985. This guidance eliminates the requirement, for multiple element arrangements not subject to software accounting guidance, that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. As a result, the new guidance may allow some companies to recognize revenue on transactions that involve multiple deliverables earlier than under current requirements. This guidance is effective for the Company on January 1, 2011. The Company is currently assessing the impact this guidance will have on its financial statements.

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition-Milestone method (Topic 605),* that designates the milestone method and acceptable attribution method for revenue recognition. This further clarifies the conditions in which a company can recognize revenue under this method. The Company is currently assessing the impact of this guidance on its financial statements.

Reclassification

During the nine months ended September 30, 2010, the Company refined the classification of its revenues in order to better conform to industry practice and to better reflect the results of the Company s on-demand business. The Company s presentation of revenues has been revised to separately disclose software hosting fees, which includes all revenues from hosting and on-demand arrangements. Previously, these revenues were primarily included in services revenue with a smaller portion included in maintenance fees and software license fees. As a result of this change in classification of revenues, the Company reclassified $0.3 million, $1.5 million and $8.1 million from software license fees, maintenance fees, and services, respectively, to software hosting fees in the accompanying condensed consolidated statement of operations for the three months ended September 30, 2009. The Company reclassified $1.3 million, $4.5 million and $24.8 million from software license fees, maintenance fees, and services, respectively, to software hosting fees in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2009.

These reclassifications have been made to prior periods to conform to the current period presentation. These reclassifications did not impact total revenues or net income for the prior period presented.

2. Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with ASC 605-985, *Revenue Recognition: Software*. For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (i) there is persuasive evidence of an arrangement, (ii) collection of the fee is considered probable and (iii) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence (VSOE) of fair value does not exist for the license element; therefore, the Company uses the residual method under ASC 605-985 to determine the amount of revenue to be allocated to the license element. Under ASC 605-985, the fair value of all undelivered elements, such as post contract customer support (maintenance or PCS) or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant modification or customization of software, those services are not separable from the software and are accounted for in accordance with ASC 605-35, *Revenue Recognition: Long Term Construction Type Contracts* generally referred to as contract accounting. Under contract accounting, the Company generally uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. In certain cases, the Company provides its customers with extended payment terms whereby payment is deferred beyond when the services are rendered. In other projects, the Company

provides its customer with extended payment terms that are refundable in the event certain milestones are not achieved or the project scope changes. The Company excludes revenues due on extended payment terms from its current percentage-of-completion computation until such time that collection of the fees becomes probable. In the event project profitability is assured and estimable within a range, percentage-of-completion revenue recognition is computed using the lowest level of profitability in the range. If the range of profitability is not estimable but some level of profit is assured, revenues are recognized to the extent direct and indirect costs are incurred until such time that project profitability can be estimated. In the event some level of profitability cannot be assured, completed-contract accounting is applied. If it is determined that a loss will result from the performance of a contract, the entire amount of the loss is recognized in the period in which it is determined that a loss will result.

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For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery or when payment terms are significantly beyond the Company s standard business practice, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, provided all other conditions for revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectability, the Company considers the creditworthiness of the customer, economic conditions in the customer s industry and geographic location, and general economic conditions.

ASC 605-985 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. The Company establishes VSOE of the fair value of PCS by reference to stated renewals, expressed in dollar terms, or separate sales with consistent pricing of PCS expressed in percentage terms. In determining whether a stated renewal is not substantive, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal rate is significantly below the Company s normal pricing practices. In determining whether PCS pricing is consistent, the Company considers the population of separate sales that are within a reasonably narrow range of the median within the identified market segment over the trailing 12 month period.

ASC 605-985 also requires the seller of software that includes services to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the services revenue. The Company establishes VSOE of the fair value of services by reference to separate sales of comparable services with consistent pricing. In determining whether services pricing is consistent, the Company considers the population of separate sales that are within a reasonably narrow range of the median within the identified market segment over the trailing 12 month period.

For those software license arrangements that include customer-specific acceptance provisions, such provisions are generally presumed to be substantive and the Company does not recognize revenue until the earlier of the receipt of a written customer acceptance, objective demonstration that the delivered product meets the customer-specific acceptance criteria or the expiration of the acceptance period. The Company also defers the recognition of revenue on transactions involving less-established or newly released software products that do not have a history of successful implementation. The Company recognizes revenues on such arrangements upon the earlier of receipt of written acceptance or the first production use of the software by the customer. In the absence of customer-specific acceptance provisions, software license arrangements generally grant customers a right of refund or replacement only if the licensed software does not perform in accordance with its published specifications. If the Company s product history supports an assessment by management that the likelihood of non-acceptance is remote, the Company recognizes revenue when all other criteria of revenue recognition are met.

For software license arrangements in which the Company acts as a sales agent for another company s products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, or assumes credit risk only to the extent of its commission. For software license arrangements in which the Company acts as a distributor of another company s product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

For software license arrangements in which the Company utilizes a third party distributor or sales agent, the Company recognizes revenue on a sell-in basis when business practices and operating history indicate that there is no risk of returns, rebates, or credits and there are no other risks related to the distributor or sales agents ability to honor payment or distribution commitments. For other arrangements in which any of the above factors indicate that there are risks of returns, rebates, or credits or any other risks related to the distributor or sales agents ability to honor payment or distribution commitments, the Company recognizes revenue on a sell-through basis.

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For software license arrangements in which the Company permits the customer to receive unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the Company grants the customer a right to exchange the original software product for specified future software products with more than minimal differences in features, functionality, and/or price, during the license term, revenue is recognized upon the earlier of delivery of the additional software products or at the time the exchange right lapses. For customers granted a right to exchange the original software product for specified future software products where the Company has determined price, feature, and functionality differences are minimal, the exchange right is accounted for as a like-kind exchange and revenue is recognized upon delivery of the currently licensed product. For software license arrangements in which the customer has the right to change or alternate its use of currently licensed products, revenue is recognized upon delivery of the first copy of all of the licensed products, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged variable software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Certain of the Company s software license arrangements include PCS terms that fail to achieve VSOE of fair value due to non-substantive renewal periods, or contain a range of possible non-substantive PCS renewal amounts. For these arrangements, VSOE of fair value of PCS does not exist and revenues for the software license, PCS and services, if applicable, are considered to be one accounting unit and are therefore recognized ratably over the longer of the contractual service term or PCS term once the delivery of both services has commenced. The Company typically classifies revenues associated with these arrangements in accordance with the contractually specified amounts, which approximate fair value assigned to the various elements, including software license fees, maintenance fees and services, if applicable.

This allocation methodology has been applied to the following amounts included in revenues in the condensed consolidated statements of operations from arrangements for which VSOE of fair value does not exist for each undelivered element (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Software license fees	$ 14,553	$ 3,328	$ 26,335	$ 10,425
Maintenance fees	2,349	1,230	5,507	3,957
Services	1,216	1,368	4,024	5,001
Total	$ 18,118	$ 5,926	$ 35,866	$ 19,383

Maintenance Fees. The Company typically enters into multi-year time-based software license arrangements that vary in length but are generally five years. These arrangements include an initial (bundled) PCS term of one year with subsequent renewals for additional years within the initial license period. For arrangements in which the Company looks to substantive renewal rates or separate sales with consistent pricing to evidence VSOE of fair value of PCS and in which the PCS renewal rate and term are substantive, VSOE of fair value of PCS is determined by reference to the stated renewal rate or by reference to the population of separate sales with consistent pricing. For these arrangements, PCS revenues are recognized ratably over the PCS term specified in the contract. In arrangements where VSOE of fair value of PCS cannot be determined (for example, a time-based software license with a duration of one year or less or when the range of possible PCS renewal amounts is not sufficiently narrow or is significantly below the Company s normal pricing practices), the Company recognizes revenue for the entire arrangement ratably over the PCS term.

For those arrangements that meet the criteria to be accounted for under contract accounting, the Company determines whether VSOE of fair value exists for the PCS element. For those situations in which VSOE of fair value exists for the PCS element, PCS is accounted for separately and the balance of the arrangement is accounted for under ASC 605-985. For those arrangements in which VSOE of fair value does not exist for the PCS element all revenue is

deferred until such time as the services are complete. Once services are complete, revenue is then recognized ratably over the remaining PCS period.

Services. The Company provides various professional services to customers, primarily project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally recognized as the related services are performed.

For those arrangements in which services revenue is deferred and the Company determines that the direct costs of services are recoverable, such costs are deferred and subsequently expensed in proportion to the related services revenue as it is recognized. For those arrangements that are accounted for under contract accounting, the Company accumulates and defers all direct and indirect costs allocable to the arrangement. For those arrangements that are not accounted for under contract accounting, the Company accumulates and defers all direct and incremental costs attributable to the arrangement.

Hosting. The Company s hosting-related arrangements contain multiple products and services. As these arrangements generally do not contain a contractual right to take possession of the software at anytime during the hosting period without significant penalty, the Company applies the separation provisions of ASC 605-25, *Revenue Recognition: Multiple Arrangements*. The Company determines whether stand alone value exists for the delivered elements and whether reliable evidence of fair value exists for the undelivered elements of its hosting-related arrangements. For arrangements in which either of these criteria is not met, the elements do not qualify for treatment as separate units of accounting. These arrangements are considered to be one accounting unit and recognized under the proportional performance method, recognizing the slower of the proportional performance of all deliverables in the period.

Multiple Arrangements, The Company may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate agreements for revenue recognition purposes. The Company evaluates whether the agreements were negotiated as part of a single project, whether the products or services are interrelated or interdependent, whether fees in one arrangement are tied to performance in another arrangement, and whether elements in one arrangement are essential to the functionality in another arrangement in order to reach appropriate conclusions regarding whether such arrangements are related or separate. The conclusions reached can impact the timing of revenue recognition related to those arrangements.

Accrued Receivables. Accrued receivables represent amounts earned that are to be billed in the near future. Included in accrued receivables are services and software hosting revenues earned in the current period but billed in the following period as well as software license fee revenues that are determined to be fixed and determinable that are to be billed in future periods.

Deferred Revenue. Deferred revenue includes amounts currently due and payable from customers, and payments received from customers, for software licenses, maintenance and/or services in advance of recording the related revenue.

3. Stock-Based Compensation Plans

Employee Stock Purchase Plan

Under the Company s 1999 Employee Stock Purchase Plan, as amended (the ESPP), a total of 1,500,000 shares of the Company s common stock have been reserved for issuance to eligible employees. Participating employees are permitted to designate up to the lesser of $25,000 or 10% of their annual base compensation for the purchase of common stock under the ESPP. Purchases under the ESPP are made one calendar month after the end of each fiscal quarter. The price for shares of common stock purchased under the ESPP is 85% of the stock s fair market value on the last business day of the three-month participation period. Shares issued under the ESPP during the nine months ended September 30, 2010 and 2009 totaled 45,642 and 59,298, respectively.

Stock-Based Payments Pursuant ASC 718

During the nine months ended September 30, 2010, pursuant to the Company s 2005 Equity and Performance Incentive Plan, as amended (2005 Incentive Plan) the Company granted stock options.

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A summary of stock options issued pursuant to the Company s stock incentive plans is as follows:

	Number of Shares		Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value of In-the-Money Options ($)
Outstanding as of December 31, 2009	3,556,873	$	20.72			
Granted	95,125		18.96			
Exercised	(186,563)		13.45			
Forfeited	(106,625)		18.11			
Expired	(12,674)		31.14			
Outstanding as of September 30, 2010	3,346,136	$	21.12	5.46	$	12,147,363
Exercisable as of September 30, 2010	2,249,134	$	21.57	4.74	$	8,920,431

As of September 30, 2010, the Company expects that 94.0% of the options will vest over the vesting period.

The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2010 and 2009 was $9.39 and $8.55, respectively. The Company issued treasury shares for the exercise of stock options during the nine months ended September 30, 2010 and 2009. The total intrinsic value of stock options exercised during the nine months ended September 30, 2010 and 2009 was $1.2 million and $0.7 million, respectively.

There were no options granted during the three months ended September 30, 2010. The fair value of options granted during the nine months ended September 30, 2010 and 2009 and the three months ended September 30, 2009 was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under ASC 718, *Compensation-Stock Compensation,* with the following weighted-average assumptions:

	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Expected life (years)	5.63	6.25	6.03
Interest rate	2.3%	3.0%	3.1%
Volatility	51.7%	55.1%	54.4%
Dividend yield			

Expected volatilities are based on the Company s historical common stock volatility derived from historical stock price data for historical periods commensurate with the options expected life. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The Company used the simplified method for determining the expected life as permitted under ASC 718. The simplified method was used as the historical data did not provide a reasonable basis upon which to estimate the expected term. This is due to the extended period during which individuals were unable to exercise options while the Company was not current with its filings with the Securities and Exchange Commission (SEC). The risk-free interest rate is based on the implied yield currently available on United States Treasury zero coupon issues with a term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

Pursuant to the Company s 2005 Incentive Plan, the Company has granted LTIP performance shares. These LTIP performance shares are earned, if at all, based upon the achievement, over a specified period that must not be less than one year and is typically a three-year period (the Performance Period), of performance goals related to (i) the compound annual growth over the Performance Period in the sales for the Company as determined by the Company (sales growth), and (ii) the cumulative operating income over the Performance Period as determined by the Company (contribution margin). In no event will any of the LTIP performance shares become earned if the Company s sales growth or contribution margin is below a predetermined minimum threshold level at the conclusion of the Performance Period. Assuming achievement of the predetermined sales growth and contribution margin threshold levels, up to 200% of the LTIP Performance Shares may be earned upon achievement of performance goals equal to or exceeding the maximum target levels for the performance goals over the Performance Period. Management must evaluate, on a quarterly basis, the probability that the threshold performance goals will be achieved, if at all, and the anticipated level of attainment in order to determine the amount of compensation costs to record in the condensed consolidated financial statements. Through September 30, 2010, the Company has accrued compensation costs assuming an attainment level of 100%.

A summary of nonvested LTIP Performance shares outstanding as of September 30, 2010 and changes during the period are as follows:

Nonvested LTIP Performance Shares	Number of Shares at Expected Attainment	Weighted-Average Grant Date Fair Value ($)
Nonvested as of December 31, 2009	216,150	$ 16.52
Granted	12,120	20.76
Forfeited	(23,700)	16.52
Nonvested as of September 30, 2010	204,570	$ 16.77

Pursuant to the Company s 2005 Incentive Plan, the Company has granted restricted share awards (RSAs). The awards granted during the nine months ended September 30, 2010 have a requisite service period of three years and vest in increments of 33% on the anniversary dates of the grants. The awards granted prior to December 31, 2009 have a requisite service period of four years and vest in increments of 25% on the anniversary dates of the grants. Under each arrangement, stock is issued without direct cost to the employee. The Company estimates the fair value of the RSAs based upon the market price of the Company s stock at the date of grant. The RSA grants provide for the payment of dividends payable on the Company s common stock, if any, to the participant during the requisite service period (vesting period) and the participant has voting rights for each share of common stock. The Company recognizes compensation expense for RSAs on a straight-line basis over the requisite service period.
A summary of nonvested RSAs as of September 30, 2010 and changes during the period are as follows:

Nonvested Restricted Share Awards	Number of Restricted Share Awards	Weighted-Average Grant Date Fair Value ($)
Nonvested as of December 31, 2009	314,548	$ 17.94
Granted	16,500	19.65
Vested	(89,764)	17.89
Forfeited	(49,686)	18.59
Nonvested as of September 30, 2010	191,598	$ 17.95

During the nine months ended September 30, 2010, 89,764 of the RSAs vested. The Company withheld 28,632 of those shares to pay the employees portion of the minimum payroll withholding taxes.
As of September 30, 2010, there were unrecognized compensation costs of $4.7 million related to nonvested stock options, $2.6 million related to the nonvested RSAs and $2.4 million related to the LTIP performance shares, which the Company expects to recognize over weighted-average periods of 1.8 years, 2.0 years and 2.2 years, respectively.
The Company recorded stock-based compensation expenses in accordance with ASC 718 for the three months ended September 30, 2010 and 2009 related to stock options, LTIP Performance Shares, RSAs, and the ESPP of $1.9 million and $2.0 million, with corresponding tax benefits of $0.7 million and $0.8 million, respectively. The Company recorded stock-based compensation expenses in accordance with ASC 718 for the nine months ended September 30, 2010 and 2009 related to stock options, LTIP Performance Shares, RSAs, and the ESPP of $5.5 million and $6.7 million, with corresponding tax benefits of $2.0 million and $2.5 million, respectively. Tax benefits in excess of the option s grant date fair value under ASC 718 are classified as financing cash flows. No stock-based compensation costs were capitalized during the nine months ended September 30, 2010 and 2009. Estimated forfeiture rates,

stratified by employee classification, have been included as part of the Company s calculations of compensation costs. The Company recognizes compensation costs for stock option awards, which vest with the passage of time with only service conditions on a straight-line basis over the requisite service period.

Cash received from option exercises for the nine months ended September 30, 2010 and 2009 was $2.5 million and $1.5 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $0.4 million and $0.2 million for the nine months ended September 30, 2010 and 2009, respectively.

4. Goodwill

Changes in the carrying amount of goodwill during the nine months ended September 30, 2010, consisting of foreign currency translation adjustments, were as follows (in thousands):

	Americas	EMEA	Asia/Pacific	Total
Gross Balance prior to December 31, 2009	$ 187,241	$ 46,846	$ 18,195	$ 252,282
Total impairment prior to December 31, 2009	(47,432)			(47,432)
Balance as of December 31, 2009	139,809	46,846	18,195	204,850
Foreign currency translation adjustments	52	(1,532)	1,245	(235)
Balance as of September 30, 2010	$ 139,861	$ 45,314	$ 19,440	$ 204,615

5. Software and Other Intangible Assets

At September 30, 2010, software net book value totaling $26.5 million, net of $45.8 million of accumulated amortization, includes software marketed for external sale of $14.4 million. The remaining software net book value of $12.1 million is comprised of various software that has been acquired or developed for internal use.

Quarterly amortization of software marketed for external sale is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three to six years. Software for resale amortization expense recorded in the three months ended September 30, 2010 and 2009 totaled $1.5 million and $1.4 million, respectively. Software for resale amortization expense recorded in the nine months ended September 30, 2010 and 2009 totaled $4.5 million and $4.2 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the condensed consolidated statements of operations. Amortization of software for internal use of $1.8 million and $1.5 million for the three months ended September 30, 2010 and 2009, respectively, is included in depreciation and amortization in the condensed consolidated statements of operations. Amortization of software for internal use of $5.4 million and $3.9 million for the nine months ended September 30, 2010 and 2009, respectively, is included in depreciation and amortization in the condensed consolidated statements of operations.

The carrying amount and accumulated amortization of the Company s other intangible assets that were subject to amortization at each balance sheet date are as follows (in thousands):

	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	$ 36,534	$ (17,846)	$ 18,688	$ 41,636	$ (19,727)	$ 21,909
Purchased contracts	10,791	(8,059)	2,732	11,179	(7,030)	4,149
Trademarks and tradenames	1,083	(398)	685	2,526	(1,711)	815
Covenant not to compete	83	(58)	25	74	(41)	33
	$ 48,491	$ (26,361)	$ 22,130	$ 55,415	$ (28,509)	$ 26,906

Other intangible assets amortization expense recorded in the three months ended September 30, 2010 and 2009 totaled $1.6 million and $1.5 million, respectively. Other intangible assets amortization expense recorded in the nine months

ended September 30, 2010 and 2009 totaled $4.7 million and $4.5 million, respectively.

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Based on capitalized software and other intangible assets at September 30, 2010, estimated amortization expense for future fiscal years is as follows (in thousands):

Fiscal Year Ending December 31,	Software Amortization	Other Intangible Assets Amortization
Remainder of 2010	$ 3,378	$ 1,585
2011	11,315	5,987
2012	8,051	4,914
2013	2,786	4,663
2014	932	2,874
Thereafter		2,107
Total	$ 26,462	$ 22,130

6. Derivative Instruments and Hedging Activities

The Company maintains an interest-rate risk-management strategy that uses derivative instruments to mitigate the risk of variability in future cash flows (and related interest expense) associated with currently outstanding and forecasted floating rate bank borrowings due to changes in the benchmark interest rate (LIBOR).

As of September 30, 2010, the Company had $75 million of outstanding variable-rate borrowings under a 5-year $150 million revolving facility that matures on September 29, 2011. The variable-rate benchmark was 1-month LIBOR. The Company had two interest-rate swaps to convert its existing and forecasted variable-rate borrowing needs to fixed rates that expired on October 4, 2010.

During the nine months ended September 30, 2009, the Company elected 1-month LIBOR as the variable-rate benchmark for its revolving facility. The Company also amended its interest rate swap on the $75 million notional amount from 3-month LIBOR to 1-month LIBOR. This basis swap did not impact the maturity date of or the accounting for the interest rate swap.

Although the Company believes that these interest rate swaps mitigated the risk of variability in future cash flows associated with existing and forecasted variable rate borrowings during the term of the swaps, neither swap qualified for hedge accounting. Accordingly, the loss resulting from the change in fair value of the interest rate swaps for the three months ended September 30, 2010 and 2009 of less than $0.1 million and $0.7 million, respectively, is reflected as expense in other, net in the accompanying condensed consolidated statements of operations. The loss resulting from the change in fair value of the interest rate swaps for the nine months ended September 30, 2010 and 2009 of $0.2 million and $1.4 million, respectively, is reflected as expense in other, net in the accompanying condensed consolidated statements of operations.

Changes in the fair value of the interest rate swaps were as follows (in thousands):

	Asset (Liability)
Beginning fair value as of December 31, 2009	$ (5,271)
Net settlement payments	4,600
Loss recognized in earnings	(153)
Ending fair value as of September 30, 2010	$ (824)

As of September 30, 2010, the $0.8 million fair value liability is recorded in other current liabilities in the accompanying condensed consolidated balance sheet.

Net settlements are measured monthly and paid monthly under the $75 million notional amount interest rate swap and paid quarterly under the $50 million notional amount interest rate swap. The net settlements are recorded in other, net in the accompanying condensed consolidated statements of operations. The swap agreements expired on October 4, 2010 and the entire $0.8 million fair value was paid by the Company subsequent to September 30, 2010.

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7. Fair Value of Financial and Non-financial Instruments

Effective January 1, 2008, the Company adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and financial liabilities. Effective January 1, 2009, the Company adopted the provisions of ASC 820 for non-financial assets and non-financial liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

ASC 820 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. ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Derivatives. Derivatives are reported at fair value utilizing Level 2 Inputs. The Company utilizes valuation models prepared by a third-party with observable market data inputs to estimate fair value of its interest rate swaps. The valuation technique is an income approach and the key input used is the LIBOR swap rate, which is observable at commonly quoted intervals for the full term of the swap.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Fair Value Measurements at Reporting Date Using		
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Derivative liabilities	$	$ 5,271	$
Total liabilities as of December 31, 2009	$	$ 5,271	$
Derivative liabilities	$	$ 824	$
Total liabilities as of September 30, 2010	$	$ 824	$

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

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The Company pays interest quarterly on its revolving credit facility based upon the LIBOR rate plus a margin ranging from 0.625% to 1.375%, the margin being dependent upon the Company s total leverage ratio at the end of the quarter. As of September 30, 2010, the fair value of the Company s revolving credit facility approximates its carrying value.

8. Corporate Restructuring and Other Reorganization Charges

Changes in the liability for corporate restructuring charges during the nine months ended September 30, 2010 were as follows (in thousands):

	Termination Benefits
Balance as of December 31, 2009	$ 312
Amounts paid during the period	(312)
Balance as of September 30, 2010	$

As of December 31, 2009, the liabilities were classified as short-term liabilities in accrued employee compensation in the accompanying condensed consolidated balance sheets. This balance was paid during the nine months ended September 30, 2010.

9. Common Stock, Treasury Stock and Earnings (Loss) Per Share

The Company s board of directors has approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to $210 million of its common stock. Under the program to date, the Company has purchased approximately 8,082,180 shares for approximately $187.1 million. During the nine months ended September 30, 2010, the Company purchased 1.0 million shares of common stock under this repurchase plan for approximately $18.6 million. The maximum remaining dollar value of shares authorized for purchase under the stock repurchase program was approximately $22.9 million as of September 30, 2010.

Earnings (loss) per share is computed in accordance with ASC 260, *Earnings per Share*. Basic earnings (loss) per share is computed on the basis of weighted average outstanding common shares. Diluted earnings (loss) per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options and other outstanding dilutive securities.

The following table reconciles the average share amounts used to compute both basic and diluted loss per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted average share outstanding:				
Basic weighted average shares outstanding	33,244	34,012	33,670	34,492
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities	236	158	237	183
Diluted weighted average shares outstanding	33,480	34,170	33,907	34,675

For the three and nine months ended September 30, 2010 and 2009, 5.5 million and 6.1 million, respectively, options to purchase shares, restricted share awards, common stock warrants and contingently issuable shares were excluded from the diluted earnings per share computation as their effect would be anti-dilutive.

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10. Other Income (Expense), net

Other, net is comprised of the following items (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Foreign currency transaction gain (losses)	$ (1,456)	$ 1,055	$ (3,078)	$ (4,032)
Loss on interest rate swap	(16)	(653)	(153)	(1,420)
Gain on transfer of assets under contractual obligations				1,049
Other	(84)	(386)	(221)	(316)
Total	$ (1,556)	$ 16	$ (3,452)	$ (4,719)

11. Segment Information

The Company s chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. The Company s products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. As such, the Company has concluded that its three geographic regions are its operating segments.

The Company s chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income (loss) by geographical region.

The Company allocated segment support expenses such as global product delivery, business operations and management based upon percentage of revenue per segment. Corporate costs are allocated as a percentage of the headcount by segment. The following is selected segment financial data for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Americas	$ 49,950	$ 58,730	$ 146,451	$ 154,892
EMEA	35,067	35,159	97,446	93,881
Asia/Pacific	12,000	10,572	33,286	31,071
	$ 97,017	$ 104,461	$ 277,183	$ 279,844
Operating income (loss):				
Americas	$ 7,594	$ 12,225	$ 17,482	$ 19,846
EMEA	3,928	2,277	4,145	(6,063)
Asia/Pacific	(4,134)	(2,559)	(10,778)	(7,183)
	$ 7,388	$ 11,943	$ 10,849	$ 6,600

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	September 30, 2010	December 31, 2009
Total assets:		
Americas United States	$ 326,015	$ 345,304
Americas Other	23,044	15,718
EMEA	178,227	187,356
Asia/Pacific	54,107	41,665
	$ 581,393	$ 590,043

No single customer accounted for more than 10% of the Company s consolidated revenues during the three and nine months ended September 30, 2010 and 2009. Aggregate revenues attributable to customers in the United Kingdom accounted for 10.8% of the Company s consolidated revenues during the three months ended September 30, 2010. No country outside the United States accounted for more than 10% of the Company s consolidated revenues during the three and nine months ended September 30, 2010 and 2009.

12. Income Taxes

The effective tax rate for the three months ended September 30, 2010 and 2009 was 58.3% and 33.0%, respectively. The effective tax rate for the nine months ended September 30, 2010 and 2009 was 98.5% and 93.2%, respectively. The effective tax rate for the three months ended September 30, 2009 was positively impacted by tax rate differentials in various countries in which the Company operates. The effective tax rate for the nine months ended September 30, 2009 was positively impacted by a release of an unrecognized tax benefit of $1.6 million. The effective tax rate in all four periods is negatively impacted by the Company s inability to recognize income tax benefits during the period on losses sustained in certain tax jurisdictions where the future utilization of the losses are uncertain, and by the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities.

The amount of unrecognized tax benefits for uncertain tax positions was $11.2 million as of September 30, 2010 and $10.9 million as of December 31, 2009, excluding related liabilities for interest and penalties of $2.2 million as of September 30, 2010 and $2.0 million as of December 31, 2009.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately $6.5 million, due to the settlement of various audits and the expiration of statutes of limitation.

13. Commitments and Contingencies

Legal Proceedings

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, the Company believes would be likely to have a material adverse effect on the Company s financial condition or results of operations.

14. International Business Machines Corporation Alliance

During the three months ended September 30, 2010 and 2009, the Company incurred $2.2 million and $3.7 million of costs, respectively, related to fulfillment of the technical enablement milestones under the International Business Machines Corporation (IBM) Master Alliance Agreement, as amended (the Alliance). During the nine months ended September 30, 2010 and 2009, the Company incurred $7.6 million and $9.4 million of costs, respectively, related to fulfillment of the technical enablement milestones. The reimbursement of these costs was recorded as a reduction of the Alliance agreement liability and a reduction in capitalizable costs under ASC 985-20, *Software Cost of Software to be Sold, Leased, or Marketed,* in the accompanying condensed consolidated balance sheets and a reduction of operating expenses in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009. As of September 30, 2010 and December 31, 2009, $20.7 million was

refundable subject to achievement of future milestones.

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Changes in the Alliance agreement liability were as follows (in thousands):

	Alliance Agreement Liability
Balance as of December 31, 2009	$ 32,487
Costs related to fulfillment of technical enablement milestones	(7,577)
Balance as of September 30, 2010	$ 24,910

Of the $24.9 million Alliance agreement liability, $4.2 million is current and $20.7 million is non-current in the accompanying condensed consolidated balance sheet as of September 30, 2010.

Of the $32.5 million Alliance agreement liability, $10.5 million is current and $22.0 million is non-current in the accompanying condensed consolidated balance sheet as of December 31, 2009.

15. Assets of Businesses Transferred Under Contractual Arrangements

On September 29, 2006, the Company entered into an agreement whereby certain assets and liabilities related to the Company s Messaging Direct business and WorkPoint product line were legally conveyed to an unrelated party for a total selling price of $3.0 million to be paid in annual installments through 2010. The note receivable was not recorded due to uncertainty of collection. During the nine months ended September 30, 2009, the Company sold its right to further payments on the note receivable to a third-party for $1.0 million, which was recorded as a pretax gain.

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