

MKS INCORPORATED

**Moderator: Phillip Deck
February 28, 2007
7:00 pm CT**

Operator: Ladies and gentlemen thank you for standing by. Welcome to MKS Incorporated Third Quarter Fiscal 2007 Results Conference Call.

During the presentation all participants will be in a listen-only mode. Afterwards we will conduct the question and answer session.

At that time, if you have a question please press the 1 followed by the 4 on your telephone keypad.

If at anytime during the conference you need to reach an operator, please press the start followed by the zero.

As a reminder this conference is being record today, Wednesday, February 28, 2007.

I would now like to turn the conference over to Phillip Deck, Chairman and Chief Executive Officer for MKS Incorporated. Please go ahead sir.

Phillip Deck: Good afternoon and welcome to the MKS Third Quarter Conference Call.

I'm here with Michael Harris, our COO, and Doug Sawatzky, our CFO in Waterloo. But I'll first turn to Larry Wasylishyn, our Legal Counsel for Legal Disclaimer.

Larry Wasylishyn: Thanks, Phil. Good Afternoon.

Some of the statements made on this call including those relating to our strategies and other statements that are predictive in nature that depend upon or refer to future events or condition, or that include words such as expect, anticipate, intend, plan, believe, estimates or similar expressions are forward-looking statements within the meaning of securities laws.

Forward-looking statements include information concerning possible or assumed future results of operation at MKS and its subsidiaries, are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict.

These statements are not historical facts but instead represent only our current expectations, estimates and projection regarding future events. The future results and shareholder value of MKS may differ materially from those expressed in this forward-looking statements into among others those factors set out in MKS' filing with Canadian securities regulators.

MKS does not undertake any obligation to update or release any revision to these forward-looking statements to reflect events or circumstances after this call or to reflect the occurrence of an anticipated event except that is required by law.

I'll now turn you call back to Philip.

Philip Deck: Thanks, Larry.

For the quarter ended January 31, 2007, MKS reported third revenue of 11.6 million, about the same as the second quarter this year but significantly below the 13.4 million, we recorded on the back of an unusually large transaction in the same period last year.

We generated a loss of after tax of 1.2 million compared to a profit of 1.6 million a year ago. Our legacy interoperability business recorded 1.8 million in revenue about the same as last year.

ALM license revenue was essentially unchanged from last quarter sluggish result and led to another poor ALM revenue performance. The 50% reduction in license revenue relative to last year was particularly sharp due to the record license performance in the year ago quarter.

Services were essentially unchanged from last quarter in spite of the seasonal affect of holiday season service delivery challenges. Maintenance grew at normal levels and renewals were right on track.

Cash increase to 15.1 million from the balance at October 31, 2006 to 14.7 million due primarily to the seasonal maintenance renewal plus tend to (boot) cash in the final two quarters of the year. EBITDA loss was approximately 600,000 for the quarter before stock compensation charges.

We made significant investment in our business to set the stage for long-term growth. Among the investments we've made this year at the expansion of our sales force, the increase proportion of our sales force devoted to major long-term sales initiative and then addition of the substantial new capabilities

to our products in partnership with the major electronic partner, and finally the development of integration in a packaged applications like SAP, PeopleSoft and Oracle. While the timing of returns on all of these investments is hard to predict, they've taken longer than would have liked.

Last year we made significant addition to our sales force to build our overall capacity, 16 reps since March of '06. Since then, we've worked with our new reps to bring them up to productivity.

In the past, we've experienced about 50% turnover in the first year of employment as we determine which reps are really going to succeed. We've experienced almost (directive) with the new group with eight remaining of the 16 hired.

The eight remaining reps as still they improve their productivity over the year but at lower rate than we've historically seen do the focus of about half of those new - those remaining reps on the very large account.

So while our - the addition to our sales force have been successful as we typically experienced, the productivity has ramp somewhat slower.

We've also had the normal way of attrition among longer tenured sales reps but we've been reluctant to replace them until we see the tangible benefits in close business from the other reps that we've hired.

As we've discussed last quarter, the increasing capabilities of our product, the visibility of our company and reference installations that we've established are allowing us to participate in sales opportunities that even the year ago we would have not been invited to.

These opportunities are typically driven at a more senior level and customer organizations are more broad reaching in the number of processes involved, are much larger in initial size, and they have more consulting services required.

And while our technology platform is ideally suited to these initiatives and while we see fewer competitors, we do find longer sales cycles and somewhat fears our competition.

As Michael will discuss, we've devoted a larger proportion of our sales force to the initiatives than we have before.

This is a different sales approach than our traditional penetrate low and slowly built strategy that's worked well for several years and that they're still being employed by the majority of our field team.

But it allows us to fit our vision higher and larger for companies that have all ready figured out that departmental application that balkanize their software development processes and frustrate their compliance and process maturity initiative do not move the organizations ahead.

And like any, you know, approach, we've had to learn through painful and expensive losses in the yearly going but we believe we're now on the winning side of the majority of engagement and expect results to improve very significantly.

We are anticipating the release of the major upgrade to our integrity product this spring. Among the many improvements are capabilities that set us apart in the market even further, many of which were developed in partnership with

the major electronic partner that saw the unique capabilities that we offered and challenged us to raise the bar even further.

These include capabilities for artifact reuse, new ways to edit and view in a document style and reach tech support.

Although the capabilities were specifically concede to deport highly sophisticated requirement reuse, we built them to enhance our capabilities across the entire platform.

This has entailed the major investment by R&D and our services professionals. But the (back are) becoming to become tangible as customer across our market see the technology leadership they were undertaking.

I'll now turn to Michael Harris for review of Q3 operations.

Michael Harris: Thank you, Phil.

This afternoon, MKS reported flat quarter in quarter revenue. While ALM license have declined modestly and services revenue deduct change from the prior quarter, stronger renewals increase maintenance revenue to \$4.9 million, an increase of 23% from the year ago.

Results for the IO segment were essentially unchanged form the prior quarter. This all being said the ALM marketplace is a whole continued to be exciting one have change in growth particularly for the companies with the right solution to best manage the assortment of IT assets was in Global 1000 companies.

Total company head count as of January 31, 2007 was 320, up 23, or 8% from a year ago. The biggest change in head count over this period representing half of the overall growth came from the North American ALM field team.

As of January 31, 2007, the total count of RSMs -- Regional Sales Managers - - was at 27 which is a 13% increase over a year ago when it was 24.

As we have said in the past, we have a large number of new hires which have been in the past less than 12 months with many of these new reps focusing on targeting larger opportunities and large account.

Overall productivity growth so far has been lowered than we had unexpected but the pipeline growth has been excellent from this new team particularly from those focusing on the major account and we expect to see the awards from these efforts in Q4 and increasingly throughout fiscal year 2008. Until our overall productivity increases to normal, we will be limiting the growth of sales reps.

Our average sales productivity was \$207,000 this quarter, an increase of 15% from the prior quarter when it was \$180,000 per RSM.

We had no license transaction about \$300,000, similar to last quarter. The amount of license revenue from deals less than \$300,000 has been quite stable over the past few quarters and the lack of larger deals comprises all of the license shortfall.

Some of the opportunities that we closed include repeat winds with Audi, Parexel, Parker Hannifin, TJX Companies, and Vertex Pharmaceuticals. In the quarter we also added Canonsoft, Mazda, Oceaneering, Perot Systems, Stolt Nielson Transportation Group, Tietonator to our list of customers.

Our IO segment continues to perform as expected -- the revenue of \$1.8 million or no change from the year ago.

Year-to-date, the segment is on par with last year's equivalent period revenue performance and IO continues to be an important source earnings for MKS.

We announced last quarter the release of MKS X/Server that delivers for integration between the Windows desktop and the Unix Linux server. We have yet to close any business with the new product line although there were several pilot installations underway to prove out the product strength. And we are hopeful with the potential revenue stream will help to extend the decline of revenue from the IO segment that we have witnessed over the past few years.

On the marketing front, the third quarter of fiscal '07, the MKS begins an Asian marketing effort in Earnest with participation in Gartner symposium and ITxpo in Sydney Australia and in Tokyo, generating hundreds of qualified sales need.

MKS also participated in Gartner symposium and ITxpo in (Can). Each Gartner then featured joined presentation with MKS customers including Westfield, (Mcsuinologen) Industries, HSBC and Tele Atlas.

And out continued bid to reach and build a brand of senior IT management, MKS was one of 17 exclusive sponsors of two Invitation-Only CIO Executive Summit in Dallas and Toronto. This event of our unparalleled access to this IT executive drawing CIOs from more than 150 folks in 500 companies in each city.

Finally, to develop the lead we are collecting along the way. MKS also hosted a series of Webinars through the quarter on a vary - and a variety of topics of interest in the ALM space featuring MKS experts, industry analyst such as Forester and Gartner and partner such as (Unintelligible) during the quarter.

Over the past years, we have spoken about the extensive product improvement which have allowed us to improve the capabilities of a platform dramatically.

Our strategy to build this capabilities rather that acquire a set of desktop tools and based on the premise of the value to our customer increases significantly by having one platform and one data mile to manage all application development artifacts.

This message rings through to the most senior managers who were responsible for all aspects of the life cycle, but at some - and then sometimes destructive to people in charge of departmental application.

We constantly balance our messaging between the compelling aspects of the expensive MKS integrated vision than the ability of our advance platform to outperform point products in any given department.

We believe that the integrated ALM vision, which our integrity platform are so uniquely capable of providing becomes more and more compelling every year.

We see closed evidence that the best way to manage artifacts was in the application life cycle if through Web platform they can manage each data elements across and within each department that participates in the life cycle.

To put it simply and to use as one example. The business analysts, architects, developers and testers ought to be out to look at the same requirement and watch as it changes throughout the life cycle.

We'd only have it to open up separate application and then try to tie into it whatever related data that is specific to their role. Instead, and with MKS integrity, any user of access to see any data element at any phase of the life cycle.

Although our integrated method resonates well in our senior management, IT is not typically than organize this way. Generally speaking, IT is organized at all departmental tools as well as in processes and dataflow. Integrated has been used between the tool of the support substitute for a truly integrated platform.

All of this is exactly why we have spent so much time and effort on a listing partner to help us get this message across to the target market, not only will be benefit directly and greatly from the services revenue which can be achieved to the data mapping and process modeling and application rationalization project that are spawned from ALM. But more importantly, they can act as this trusted adviser.

These are partners which have been working with our customers with our targeted customers for years and therefore have great context of the level which are value of most fully understood and appreciated.

We are delighted with how successfully our method resonate with large systems integrators and in several cases, they are taking these methods to their customers and their target.

In summary, as our product capabilities have increased as we gain access to the highest level of management in our customer-based and as we enlist the influence of external service partners, we are able to deliver our integrated ALM message to an increasingly enthusiastic response -- the senior level (buy-in) is fuel to our growth.

Doug Sawatzky: Thanks, Michael.

As we've analyze the transit are affecting our business over the past few quarters, we find a striking similarity to the transition we went through in fiscal 2004.

At that time, we had made disruptive but important changes who are field organization. In fact, we had essentially rebuilt it, and we are separating from a slow down in licensing due to the changes.

We separate two very sluggish quarters followed by a rebound in the final quarter of 2004. In the next year, we enjoyed many quarters of solid growth partly based on the relative stability in the sales force following the changes made in the year before.

In this transition as well, we've made additions and changes to sales force but even more so we have devoted the significant portion of it to the pursuit if much larger opportunities than we have in the past. We believe that these investments are beginning to show fruit and this foundation we're building will support many quarters of growth just as they did in 2005 while the investment we had made are focused on growth, we're - as usually aware of the need to return quickly to profitability. We have take step to make sure that our cost basis well under control and then further investment in growth will come only as we have the profitability to support them.

Throughout this slow down, I'd like to thank our maintenance and services business have continued to grow steadily. And we're now in position to support sharply higher revenue at current expense level. We do not do our continued strengths and cash balances as any basis to lessen the commitment to profitability.

As our revived guidance implies, we're expecting to finish the year with a strong and indeed a record quarter. While it may not result in profitability for the full year, we firmly believe that it was set us on the path to much improved results in the quarters ahead.

Our expectations are based on the programs we have made in large deals which should be noticeably absent from our license revenue results of late.

While the timing of the deal is always far from certain, we're extremely gratified with the steps we seem to be making in penetrating the next stage and our ability to sell for large customers.

We believe that annual revenue for fiscal 2007 will be in the range of 50 million to 52 million, an income tax before tax will be in the range of minus one to positive one million revised down from the guidance given last quarter.

Income tax expense is recorded than a company's financial statement at a prevailing tax rate in the jurisdiction where income-generated. And to the extent of it, deferred of that tax asset has been recorded in that jurisdiction. That rate maybe higher than the average of the company expect to pay in the future across all jurisdiction.

We expect the long-term tax rate to be approximately 35% to 36%. This will be subject to an ongoing quarterly assessment of the evaluation allowance by jurisdiction which may give rise to further increases or decrease in the existing tax asset.

The MKS reported director yesterday approved our regular dividend of 2 cents per share at US. We continue to enjoy healthy cash balances and expected out cash balances are likely derived in spite of the dividend due to the - due primarily to the seasonality of maintenance renewals. Maintenance of the dividend continues to be consistent with our strategy to avoid further accumulation of cash.

The board of directors has a great deal of confidence in the (south insular) business plan. The opportunities at hand in our changing market and our short term plan to reestablish growth.

We appreciate that the board in confidence of all our shareholders and look forward to reporting on our progress in the months to come.

I would not be delighted to answer any question from analyst.

Operator: Ladies and gentlemen, if you would to register for a question, please press the 1 followed by the 4 on your telephone. You will hear 3-tone prompt to acknowledge your request.

If your question has been answered and you would like to withdraw your registration, then press the 1 followed by the 3.

If you're using a speaker phone, please lift your handset before entering your request.

One moment please for our first question comes from the line of Tom Liston from Versant Partners.

Please go ahead, sir.

Tom Liston: All right, thank you.

So this - on the Q3 results, when we look back a quarter ago and you lowered guidance that I assume you felt that Q3 would be much better than what it actually came in at. What deferred over the course of those two months?

Phillip Deck: (Unintelligible), you know, it's all in the ALM licensing line. And when you look at ALM licensing line, you find there are, you know, that production of deals under about 250,000 is pretty stable although couple of quarters. And that, you know, that to some told us, we really didn't close any big deal. It's the biggest license deal we closed with less than 300,000.

So, you know, once again, we were engaged in a lot of fairly large transactions, you know, we - I think when we - we're on a conference call three months ago, we really looked at the back half as, you know, returning to some strength in terms of follow-on deals from existing customers and probably bring some of the larger accounts that comes in.

And - we're still largely confident of that for the (back) six months but it's turning us to be the last quarter instead of the - instead of third quarter.

So, you know, the changes we've made the guidance, you know, are a lot less than I think are, you know, the addition, the short fall of the third quarter. So

we clearly are applying that. We still think that the back half this pretty strong and that means the fourth quarter is going to be pretty strong.

Tom Liston: Okay. And just on - the some of the large deals - what - how many say paid over, you know, 350K would have been lost expenders in the quarter?

Phillip Deck: We, you know, it was interesting that my time we're on this call we had been the recipients of a couple of bloody noses on some large deals. And we really didn't see that continuing this quarter.

You know, on the competitive front, the thing that we find in the big deals is that there's a lot fewer number of competitors but the once that are there fight a little harder because they're larger deals and so they'll do more to keep us out. But we feel pretty good about our competitor's stance today.

And, you know, during the quarter, we seem to be mainly on the winning side of things and not the other way around and I think that, you know, on the first half we lost really just a couple of deals but they were big enough to really impact just a fair bid and where we thought we're going to be. That doesn't seem to have continue to happen it's, you know, right now it's more an issue of how long things are taking to come in but we feel really good about where we stand competitively.

Tom Liston: And the turnover in - the sales force, the newer reps understood and recently predictable but (unintelligible) with the longer term reps, why some of them believing if things are, you know, saying it better, the pipelines looking better, the competitive position looking better, why are some of the more experienced rep leaving?

Phillip Deck: You know, I mean - we had a - I think we've - we're down about two in the last six months. You know, it's kind of that normal. It's about the normal level of people just deciding to do something different or, you know, at the mid level of production and deciding it's too much work or getting an offer with someone that they've worked with before.

So, you know, I don't think they're not a general level of dissatisfaction or frustration in our sales force. You know, that the sales force are divided kind of in the two groups. The ones that are producing, you know, pre-steady revenue and coming pretty close to quarter and recently happy with that.

And then the - the ones that are not producing any revenue but so excited about the deals, they working on this. You know, they understand exactly why they were on the deals they're working on.

So, you know, we have some of our best reps and frankly I'm most enthusiastic in committed reps than you know, how pretty often looking license numbers for the year because they're working on deals that, you know, are kind of minimum year-long sales cycle.

So I think our sales force is in pretty good spirit and, you know, and I think for good reason.

Tom Liston: Or you have any conversations about the strategy whereas you might try to value smaller deals are mainly go into a more, you know, again the point solution type sale, where there's requirement management or what have you rather than always looking at the other big fish and dragging some sales cycle out at and the rest of it.

Is there a strategy where you could do maybe some smaller deals get - just get a little bit of in-road in some of the bigger accounts and slowly move forward rather than try to do the big deal all at once?

Phillip Deck: Well there's always a bunch of small deals. And we did about \$3 million versus on this quarter. So there's lots of 250s in there and 150s and lots of, you know, medium-sized companies that wanted solution.

In fact, one of the most gratifying things we found with the, you know, this massive, you know, the very integrated vision of ALM is that within companies that are, you know, 100 to 300 developers really that the enthusiasm for a product to just everything right out of one box is incredible.

And in those companies, you know, the kind of divisions between departments don't seem to be deepen up that they're all ready working so much as a single unit in that size organization that they really get it from the standpoint of doing everything within one (unintelligible).

In some of the larger companies, you have a little more, you know, what do you call balkanization or more kind of long-standing divisions between departments where they may have their own applications and they like the idea of being in control of their own environment more.

And, you know, you have to persuaded a bit more by a bigger picture of company initiative to actually, you know, get enthusiastic about all of the departments getting under one platform.

But I think, you know, it's important to note that, you know, our traditional strategy of targeting large companies because we've always targeted large

companies and going in at fairly modest initial deal side is some of the strategy and most of our customers and it's so a successful strategy.

But more and more companies that are senior level are starting to sight that they're not really getting anywhere and we have to be able to participate in competition for deals that are much more senior level.

And so it's not just the idea of being seduced by a big deal number and going after deals that we haven't done before that's where the market is increasingly moving and going to move. And we really - it's really essential that we'll be able to compete for those transactions.

And, you know, whatever you start competing in the somewhat different way than you have before, you're going to, you know, you're going to learn some expensive lessons and that's always painful but, you know, we've done that and we feel really good about the experience we've got and this - the initiatives that are underway and, you know, the revenue growth from those kind of account can be really spectacular when it starts to come in.

Tom Liston: Okay. And finally, just in Q4 implied guidance, it looks like at the low-end your going to be pretty on close to a record license revenue quarter at the high-end certainly would beat the record license quarter.

After two quarters of pretty be submissive, what gives you and how they're - how do you get investors confidence that you're going to hit that type of number?

Phillip Deck: Well those are very different questions -- how do I get confident and how do I give you confident.

I can't control the latter ones other tell you what we think and what we based it on. We're, you know, we have pretty sophisticated management of our pipeline. It's probably easier to judge timing on smaller deals than it is bigger deals. But, you know, we're confident based on all the sales initiatives that we're intimately involved in.

And, you know, I have - of course it does - no good to offer guidance that's not based on a strong foundation because we don't really want to lose whatever credibility we still have left but we feel very confident about where we stand and that, you know, and I guess that confident isn't just the fourth quarter, it extends in the next year that, you know, the things we've done to build out sales force and make investments in our business that we done this year, you know, are going to payoff over many quarters, not just one. And, you know, that's why we've gone through this.

Tom Liston: Okay. Thanks, Phil. Excellent.

Operator: And our next question comes from the line of Lawrence Rhee from Genuity Capital Markets.

Please go ahead, sir.

Lawrence Rhee: Hi guys. Just wanted to touch on the comments you made about competition being more fierce. Can you just add more color around? Is it new players in the space or what are some of the traditional competitors doing to for you to kind of make that type of comment and how are you kind of respond into that?

Phillip Deck: Well, I think that in general, there's no (unintelligible) except to the very low-end, you know, maybe Microsoft should be the newest competitor in the

space but they're really is - the Windows only kind of medium-sized part if the market.

In the big market you see competition not so much from people who are specialist of the ALM sector as companies that like to dominate the IT department of Fortune 500 companies themselves. They're sometimes not our traditional competitors and sometimes people that we don't even think had a terribly impressive technology in the space but their companies like to keep new players out of the CIO's office.

And I think when you see this deal side going up and the potential then going up, you know, the interest of large incumbent providers who sometimes just offer (all unique) software deals to see people out become tighten because they don't want to see someone else coming in and starting to, you know, acquire turf and what do you think is their space.

So, you know, (fierce) comes from the fact that if it's a deal more than 1 million, you're going to attract the attention of competitors much more who want to keep you from acquiring that business.

You know, sometimes in the past, when we've done the deals in big companies, it's being at little level on the company and it really has not attracted much attention or more maybe the competitors just weren't even aware of what we were doing.

When it gets to the CIO's office, the relationships with incumbent vendors are more significant and the, you know, incentive for large companies to keep us out are greater.

And so, you know, and hopefully that gives you some color for.

Lawrence Rhee: Okay, that's great.

And just - sorry, just touch on the guidance again, obviously the (unintelligible) last year's stock bigger deal, (told me), I think it was \$2.2 million in license revenue in the same period last year. Was that expectation there for this year and hence you're confident in the Q4 numbers, i.e., is there - was there one or two deals that I expected to close in Q3 that, you know, are now expected to close in Q4?

Phillip Deck: The guidance isn't based on one customer or even a handful of customers. It's, you know, a boarder base pipeline in that. We don't, you know, we're not expecting any \$2 million deals coming this quarter. But, you know, it can always happen I suppose but it's not our expectation that we're going to make it on one deal.

Lawrence Rhee: Got you. Okay.

And just with respect to the - I guess veteran sales reps. I think last quarter you mentioned that there are uncharacteristically quiet causing I guess the shortfall of license revenue. Is that the same type of explanation for this quarter as well or how would you?

Phillip Deck: And it might have been unfortunate language because they certainly haven't been quiet. They just didn't actually close any deals. You know, there's - I think there's a group of five or six kind of very well-tenured, very well-experienced reps that we have that they're dealing with large customers that are very busy. And, you know, but that didn't turn out to be in closing any deals in the quarter. It turned it to be, you know, into spending their time on

long-term sales initiatives. And that is - has continued to be the case in this quarter.

Lawrence Rhee: Got you. Okay, thanks, guys.

Phillip Deck: Sure.

Operator: Our next question comes from the line of Scott Penner from TD Newcrest.

Please go ahead, sir.

Scott Penner: Thanks. So I just wanted to ask you about the progress in building out your services organization to try and move some of your specifically your existing customers along to some of the progress you just introduced.

Phillip Deck: Yeah. We're quite happy about it. It's kind of in two areas in the - you know, our internal services organization, we actually hired someone to run our consulting practice across North America this quarter. And so we're kind of building up a bit of a management structure and we've kind of designated the group of consultants within MKS and they're starting to execute on some bigger consulting contract maybe even more important and interesting to us is progress we're making with some of our services partners of course we got a whole bunch of services partners that are out there doing consulting and also kind of bringing us into new accounts. We had - you know, that's the case in Japan as well where we have to acknowledge industries.

This quarter we signed that company called Canonsoft, the division of Canon who's also services provider and we'll be working with as to generate business as well.

So we're adding to the number of companies that are using our products and recommending it to their customers and looking to drive services business out of that.

And then finally, we've started to have many more discussions with, you know, partners that are from much larger system integration companies. Integration companies where we likely can't - aren't big enough to establish a corporate wide relationship because we're too small. But places where we have customers that have those large systems integrated involved and getting their partners in those accounts to take an interest in our platform and look at how they can generate revenue.

And we seem to be getting great and very enthusiastic response from those companies because as our platform gets deployed across many divisions, divisions are good and absolute well from services work and managing the migration to the platform and the configuration and the processes between various just different departments. And it's very much the kind of consulting work that systems integration companies love to do.

In addition to that, with our platform, it's a great platform for service of companies because they could develop their own propriety configurations of the platform, whether it's the CMMI configuration or, you know, some kind of vertical market specific configuration or, you know, maybe there are requirements measure and specialist then they can do some requirements measures and configuration so they can build their own value add on top of the platform and then be able to offer that to their customers and show why they should not only buy MKS but they should actually use, you know, that systems integrator or consulting company to install it and have value on top of that so, you know, that's the - I think the improvements in our platform over the last year to have really changed a lot of the way that those systems

integrators and consultants look at the product because it's now so much more capable, so much more scalable to many different departments and really a great platform for supporting their services work.

Scott Penner: Thanks, you kind of answered next question which is are these the type of services partners even at a regional level that you piggyback on to against some of the big players that, you know, you've always run into and you're running into more at the CIL level.

Phillip Deck: Oh, that's certainly not lost on the employees that Accenture and EDS companies like that that their competitor is IBM Global Services. And that -- so fact that, you know, IBM which is one of our big competitors also has their own consulting organization make this more of a natural ally with those consult -- with their competing consulting organization. So but that's certainly helpful.

I'm not sure I can even at this point think that we're going to make regional deal with the existence integrated because I don't even think we're big enough for that. I think that we can convince partners in shared customers to get excited about what were doing and help us within those customers.

You know, I need to see more evidence that they're going to help us in other customers as well. It's more of the medium size consulting firm and SIs that will do that for us, not the majors at this point.

Scott Penner: So in looking out into in the next year, what - I understand this is bit of a crap shit, but what sort of growth should, you know, we or they're building models really look at for the ALM business with the new reps and the new capabilities, you know, can you get back to your historical 25%, 30% growth in the license business?

Phillip Deck: Well, I think we can get back to our historical levels of field productivity which, you know, were more like the 350,000 level than the 200,000 level that were around right now.

You know, so because of the number of people we've added to our sales worth this year, we don't think we have to add many more throughout next year so we're not planning to make, you know, huge additions to the sales force.

We're really committed to, you know, squeezing out the productivity that needs to be still attain from our exiting sales force, I mean if you look at our organization right now, our license results are far below the capacity of our existing organization to deliver, and so we need to see the organization deliver that that revenue capacity before we add as much of the capacity past that.

So we kind of look at next year as pretty slow growth in a number of reps but, you know, pretty steady returns to some of the productivity levels we've had in the past.

We also think that the percentages of services out of license will increase fairly steadily as, you know, we're selling it the rate of about 40% or 50% of license right now which, you know, given our low license level is not as much as we'd like, but we think that that proportion of service to license is going to grow steadily towards one to one.

I don't think we get to one to one by the end of next year but I think it's -- I think we're heading into that direction. And then, you know, maintenance you can figure out for your self, you know, we have a very high renewal rate that is probably -- and whether we're non renown in maintenance we have is

largely made up by price increases we put through so it's fairly easy to calculate the maintenance growth.

And I think when you do that it doesn't take, you know, it doesn't take very much of -- more than our return to historical productivity levels to get us, you know, right back in the very (unintelligible) profitability

Scott Penner: Okay, I'll pass the line. Thank you.

Operator: And our next question comes from the line of Howard Lis from (GMP) Securities, please proceed sir.

Howard Lis: Hi, good afternoon.

Phil, just to try to understand a little bit more about your sort of Q4 guidance, you know, a month into the quarter your talking about a record quarter by any means you've had, you know, experienced reps lead, you've got this long cycle deals that have been sort of dragging on having expected them to closing, you know, number into closing prior quarters.

I know you'd sort of being asked this a couple different ways but I'm still trying to understand why you're so confident that things will come together in the next two months. Have you already close a number of deals that are substantially either larger or more of them sort of at this point in the quarter? Or what does it that sort of giving you that as level of confident? Because you know quite frankly how do you had got in 2 million more than what you provided people today I think no body would be surprised. So what is it that's giving you that really, really strong confidence that they'll make those numbers?

Phillip Deck: Well, just to go poke at your premise first statement that we've been losing experience reps. We have normal turn over experience reps, so there is no greater turnover than any historical period. So, you know, I'm not worried about that.

You know, and I know I don't have a big deal but I just close to my back pocket that makes me able to come out here and say, "Hey, no problem we're going to make this. You know, we manage our pipeline in a fairly sophisticated way, you know, we have a lot of deals in the pipeline. We follow them pretty closely. There's no huge certainty involved in doing it. We just, you know, we do the math and we come up with our forecast. And, you know, I think you can figure out where we are on most of the categories of our revenue assuming kind of modest growth and most of them and, you know, the licenses is going to, you know, is going to fall on that.

So I really can't give you any better answer than to say this we analyze our results or a pipeline the way we always have and we have a fair a bit confident in it before.

Now, we've been wrong before too. But, you know, not with standing that we think we're going to have a strong fourth quarter.

Howard Lis: Yeah, I guess, you should having it sort of we've heard that before and, you know, we just it's not proven that to be the case so I mean I'm trying to understand how you have that higher degree of confidence than prior quarters, I mean, you have analyze your pipeline the same way as you set, yet in which sort of a couple quarters now of a disappointing deal conversion that he still think to be very confident in the same sort of way you analyze the pipelines.

And I guess there was, you know, the added risk that, you know, you're not hiring new reps as for your prior plan which I think I (sense) given the weaker top line but that makes you that much more vulnerable, you know, as we go forward to -- on the base you got of folks leaving.

So, you know, I'm just looking for some added color as to why Q4 is going to be this, you know, a massive quarter from how you look at your...

Phillip Deck: Well, is that - the fact that we're not hiring a ton of reps reduces the risk of it. It doesn't increase, I mean, you know, reps a lot more predictable after they've been with us for awhile so, you know, I think we're in a better position to analyze it now than we would be if we are basing a forecast based on new hires and, you know, when you're basing on new hires you don't know exactly when you're going to get them or where do they going to work out or how fast they're going to ramp up.

It's a lot easier to do pipeline analysis on people who have been around for awhile and who have pipelines that are much better developed.

So Howard I don't think I can give you what you're looking for because I, you know, all I can tell you is what I think.

Howard Lis: Okay.

And there's been discussion at the board level about potentially suspending the dividend and perhaps using a cash towards buying back stocks, et cetera, if generally there's the confidence the things are going to rebound strongly.

Phillip Deck: Well, we, you know, we always have discussion of the board level on what we should do about dividends and buybacks and all those things. And we kind of

exhaust all the alternatives. But we continue to believe that given the low level of liquidity in our stock buying back stock isn't a terribly useful thing because the, you know, although most of all tell you is certainly due to results it doesn't help if we go and map up what the little trading liquidity there is there. So and that hasn't, you know, there's nothing really new about that analysis that's why we put the dividend in in the first place and I think all of factors that's, you know, have remain the same.

Howard Lis: Okay, thank you very much.

Phillip Deck: Thanks.

Operator: And our next question comes from the line of (Duncan Stewart) who's a private investor, please proceed sir.

(Duncan Stewart): Well, not exactly but, hi, (Phil).

Phillip Deck: Hi, (Duncan).

(Duncan Stewart): Few questions I guess just so I'm clear on the (mass). You guys start to be here at 24 RSM, you added 16 new of which you've loss 8, so a net gain of 8, and you're at 27 now, that's just you've loss 5 out of 24 senior RSM to the (unintelligible) for year. Is that -- are those numbers right?

Phillip Deck: No, I went back to March.

(Duncan Stewart): Okay.

Phillip Deck: It was my 16th.

(Duncan Stewart): Okay, so you lost how many seniors in the last year? I know you say it's the normal level but...

Phillip Deck: I don't have the exact number. I know - Michael...

Michael Harris: Maybe two.

Phillip Deck: I think there's two.

(Duncan Stewart): Okay.

((Crosstalk))

Michael Harris: Two or three.

(Duncan Stewart): All right, okay so let me get to this where - sort of a prologue up to the next question which is historically what you've done, I mean as you did say you went through all this since 2003-2004 when you change, you know, the target of who, who MK was selling to.

And kind of what happens is you guys, you know, you have a big let's say big one of the big, big anaconda small wings of mongoose, or whatever the hell it is, it's, you know, but you watch it a (unintelligible) asset.

And yet what happens is you, you know, you hire a whole bunch of new guys its 16 or whatever and 8 stay, that goes along, you get productivity up and then all of a sudden 6 or 9 or 12 months you kind of say, "Oh, wait we can't grow sales unless we hire a whole bunch of new RSMs. And then it seems to be occurring at least in the last couple iteration in relatively lumpy fashion. Even tough you are currently, you know, profitable doesn't it make sense to

have kind of a slow steady one or two RSMs per quarter so that you always have a backlog of people who are coming up that 12 months learning curve.

Phillip Deck: What you suggest is entirely sensible and the thing that frustrates us even though that is exactly the plan that we try and execute is that during fiscal 2006 we were simply unsuccessful at finding that reps of sufficient cost equality to add them. And adding bad reps is an extremely expensive of thing that you don't do just to make your hiring quota because it's so incredibly expensive.

So, you know, we got back in the corner I think as we should by the end of fiscal 2006 and saying, you know, we just can't maintain our growth if we don't get similar sales people in.

And so when we found a bunch, you know, partly because of the NA in the industry, partly because of whole bunch of things. We hired a lot and that adds to the, you know, the kind of cyclicalality although it's not as an annual cycle that you described.

You know, what's frustrating right now is we're -- actually adding to that they're exacerbating that problem because right now we don't want to hire anymore sales people because we're not profitable enough and because we want to see the productivity our existing reps, and in some ways that will exacerbate the whole problem because we're not going to hire any sale people for awhile.

(Duncan Stewart): Now, (unintelligible) shouldn't you be hiring - if Q4 falls in line with your guidance if you say you're quite confident about, you actually should be profitable in Q4 so shouldn't you be hiring somebody?

Phillip Deck: And we are hiring modestly.

(Duncan Stewart): Okay.

Phillip Deck: And we - and so, you know, when I say we're going to limit the growth we're going to limit it to a fairly modest number and the number isn't really locked in stone, it's going to be dependent on who we find.

If we find people that we just think are outrageously good and we absolutely need to have them in the organization they will do that but it's not going to be in the fashion that we did last quarter. And maybe the better way to put it is the way the profitability is not by hiring a whole bunch more sales people the way it's the profitability and getting back on track as to increase the productivity of what we have.

So your question and your analysis and your kind of suggestion of business plan is entirety right, and we struggle with this constantly now the other issue that affects us a bit is that we don't really like to hire people at in the fourth quarter because that tends to then load a lot of new hiring cost and low productivity into the first quarter which is UDC (unintelligible)...

(Duncan Stewart): Yeah.

Phillip Deck: So when you take all those factors together and you decide, "Okay so then I really want to just hire people in the second and third quarter except not when we're losing money unless they're really fantastic." I guess the rest of those how I can describe our business plan.

(Duncan Stewart): Unless you got to work to such a fine (unintelligible).

On Q4, it sounds like you do have a good confidence level there. Can you give us any - I mean and I know it's not any single \$2 million or \$10 million deal or whatever but if you look at it some of the initiative that you guys have done in the last sort of a two or three quarters up more on the service side driving it, more hire up in the CIO office, up more too for example your initiatives in Japan.

Is any of the confidence that you're expecting to see with our record license ALM number in Q4, is that coming one of those new initiative or is it from sort of other parts if you can just give us a little colors that at what seems to be bearing fruit for you that gives you the confident?

Phillip Deck: It a major initiative we're on. It's, you know, we've been doing fine on all the deals under 300K, we don't have to -- we don't have to make any changes there, those continue to bear a lot of fruit.

What we haven't been doing is landing bigger deals and we need, you know, as we grow we need to have bigger deals and we need to be able to, you know, break in the companies where instead of initial 250 followed by, you know, 0.5 million a year later, it's an initial million followed by a couple of million a year later. That is an important transition that we have to make as a company and it's going to be a bit ragged as we move into it but were only now really is the point where we can really bid for that business because the product has come to where it needs to be and we have reference installations where they need to be.

So we're now competitive for that business in a way that we just weren't two years ago, and weren't being invited to the dance for those kind of deal. And ,you know, as those things mature, that gives us a lot more confidence about the numbers.

You know you can't double your license revenue from one quarter to another on 30 and 40 grand deal.

(Duncan Stewart): Yeah.

Phillip Deck: It doesn't work. The lumpiness in our result doesn't come from the smaller deal, it comes from the bigger deal.

I think it's - when you graph all the revenue that we have, below a certain size deal there's a lot of stability.

(Duncan Stewart): Okay, I think or should we see, I mean - okay what about your Japan specifically, do you think that some of that in Q4?

Phillip Deck: Oh, yeah and Japan is being growing well. Japan I think almost triple their revenue last quarter and we expected another big increase. They, you know, they now have two services partnerships that are kind of up and running and I think we did four or five different deal -- Michael help me here -- help me with the deal that we do in Japan last quarter

Michael Harris: Yes, you know, it's probably not four or five.

Phillip Deck: Four or five new deal so, yeah Japan is going well and, you know, I say Japan and as of (unintelligible) because we used to, we call it it's officially called Asia but frankly, you know, we continue to focus harder and harder on Japan because that's really where the bulk of the opportunities are, and, you know, that's where I think we're really getting attraction.

(Duncan Stewart): Right, okay thanks a lot.

Phillip Deck: Thanks, (Duncan).

Operator: Our next question comes from the line of Susan Streeter in Sprott Securities, please go ahead Ma'am.

Susan Streeter: Thanks. Good afternoon.

Phillip Deck: Hi, Susan.

Susan Streeter: Most of my questions have been answered. I just wanted to touch on to make sure I understood something, could you - so you now have 27 RSMs and the I think you said that the average was about 210,000 is that right?

Phillip Deck: In the past question yes, yes.

Susan Streeter: Past quarter? What would - what's the reasonable target range?

Michael Harris: Well, you know, I mean over a fiscal 2006 our average was right around 300,000 that's a low of sort of sort of 270 and the high of 355, 360, you know, that could, you know, arrange that I think that's suitable back then it would be suitable going forward and we, you know, we want to grow from there but I think it's before in this 300,000 range and, you know, we're very happy.

Phillip Deck: And you know the caution on that number is that, you know, that's -- that can average and in this case the average isn't going to be all that meaningful (that the) it's going to breakdown into some real next issue and lumpiness issues that, you know, you bring in one here to deal and it has the effect of changing around the average of productivity that doesn't mean on average everyone has become more productive, you just get a big deal and so the numbers are going

to be and have been volatile, I mean we improve our productivity a lot this quarter mainly because we have less sales people so...

Susan Streeter: Right.

Phillip Deck: ...that's you always have to be careful about our average productivity.

Susan Streeter: Okay, understood thank you.

And then just secondly I'm wondering in terms of the incentive plans, I'm wondering if they encourage or focus on larger deals versus the smaller deals or if you have sort of restructure that a bit to make it more equitable?

Phillip Deck: Pretty much a dollar is a dollar of commission on revenue, and it -- the kind of RSMs that are interested and keen on bigger deals or people who see the bigger amount and figure they know how to actually manage those kind of sales initiative so some sales people are much more comfortable doing five or six 200 grand deals in a year and others, you know, have a different way of selling and really love the big long campaigns and...

Susan Streeter: Right, right.

Phillip Deck: It's not so much a matter where they think that or how that the commission schedule work as more, you know, where they think their ability some skills lie in, you know, to some degree what the risk (unintelligible) as well.

Susan Streeter: Okay, that's it for me. Thanks.

Phillip Deck: Thanks, Susan.

Operator: Next, we have a follow up question from the line of Scott Penner from TD Newcrest. please go ahead sir.

Scott Penner: Yeah, just Phil, you've talked a lot about these are pipeline of large deals and not really having any in your pocket at this time. What - you must have some comfort at the reason that you got your (nose bloodied) in large deals earlier in the year is not going to happen again in Q4, so I just wanted to you to comment a little bit more on that.

Phillip Deck: Well, it might happen again but, you know, we have more (breads) in the pipe line now than we did in Q1, Q2 and Q3 so, you know, there's -- I can tell that there are some suspicion that I have this one thing that's one silver bullet that's going to make us heroes and I assure you this is not the case.

There's (breads) to the pipeline which we haven't seen in awhile in terms of, you know, deals of significant size and significant numbers of them and significantly later stages in the deal cycle that we think that the, you know, based on probability we're going to have a good quarter. That's really the place where we developed this confidence.

Scott Penner: Okay, thanks.

Operator: Ladies and gentlemen as a reminder to register for a question, please press the 1 followed by the 4.

One moment please for the next question.

Phillip Deck: Great, well it doesn't look like there's anymore question so we'll conclude the call there.

Thanks everyone for participating and we look forward to updating you over the months to come.

Operator: Ladies and gentlemen that does conclude the conference call for today. We'd like to thank you for your participation and ask that you please disconnect your line.

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