M K S INC.

Moderator: Philip Deck
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3:00 pm CT

Operator: Welcome to the MKS fiscal Q3 2010 results conference call.

During the presentation, all participants will be in a listen-only mode. Afterwards we'll conduct a question-and-answer session. At that time if you have a question, please press the 1 followed by the 4 on your telephone.

If at any time during the conference you need to reach an operator, please press star 0.

As a reminder, this conference is being recorded Tuesday, February 23, 2010.

I would now like to turn the conference over to Philip Deck, executive chairman. Please go ahead, sir.

Philip Deck: Good afternoon and welcome to the MKS third quarter 2010conference call. I’m here with Michael Harris, our president and CEO, and Doug Sawatzky, our chief financial officer.

But I’ll first turn to Larry Wasylishyn, our legal counsel, for the disclaimer.

Larry Wasylishyn: Thanks Phil.

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 conditions or that include words such as expects, anticipates, intends, plans, believes, 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 operations of 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 projections regarding future events. The future results and shareholder value of MKS may differ materially from those expressed in these forward-looking statements due to among others those factors set out in MKS's filings with Canadian securities regulators.

MKS does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after this call or to reflect the occurrence of unanticipated events except as required by law.

I’ll now turn the call back to Phil.

Philip Deck: Thanks Larry.

I'd like to now go to Doug Sawatzky, the CFO of MKS, and for his financial report. And he will be followed by Michael Harris, our CEO, for his management report.

Douglas?

Doug Sawatzky: Thanks Phil.

Today MKS reported financial results for our third quarter of fiscal 2010 ended January 31, 2010.

Overall revenue for the quarter was $15.3 million resulting in pretax profits of $1.8 million. Compared to the third quarter of 2009, we increased our revenue by 16% and our pretax profits by 300%.

License revenue was $5 million for the quarter, up 34% from the same period in fiscal 2009. While the market is generally improved from this time last year and the development of our previously-won mandates is progressing, the company has not yet seen the benefits of an increase in capital spending so far in the first calendar quarter of fiscal 2010.

Maintenance revenue continued to grow steadily throughout this quarter in local currency terms, up 11% from the third quarter of fiscal 2009 as customers remained current on maintenance.

In terms of our reporting currency, the US dollar, maintenance revenue remained flat from the second quarter of fiscal 2010 at $7.8 million as the growth was slowed towards the end of the quarter by the weakening euro and pound to the US dollar as those currencies represent approximately 1/3 of the company's maintenance revenue.

The decline of the euro and the pound from the second quarter to the third quarter of fiscal 2010 reduced maintenance revenue this quarter by approximately $50,000.

Service revenue remained steady at $2.6 million, up 3% from the same period of fiscal 2009. The third quarter is typically a slower quarter for services due to the holiday season. Services bookings, however, for the quarter were strong, increasing the service backlog from the second quarter of fiscal 2010.

As we said last quarter, we are expanding our field force to meet the anticipated increases in demand as the importance of mitigating risks related to software development management through the use of our products becomes greater and the - as the mandates received from major customers mature and the availability of capital to fund those mandates becomes available.

During the quarter, we added approximately six new employees to our field force, primarily customer solutions engineers, the technical resources required to sell and implement our products.

On a sales productivity basis, we increased our sales per field rep to $243,000 in the third quarter, up from $192,000 in the third quarter of fiscal 2009. We ended the quarter with 28 sales reps, no change from the second quarter.

Average companywide headcount for the third quarter of fiscal 2010 was up to 317 employees from 309 in the second quarter of fiscal 2010.

Our closing cash balance at January 31 was $22 million, an increase of $3 million from the $19 million at October 31 and up $5 million from the $17 million balance at the end of our last fiscal year, April 30.

The company paid $1.5 million in dividends during this quarter. As our annual maintenance renewals are skewed to the last half of our fiscal year, we are starting to see the beneficial impact of those renewals in our cash balance this quarter.

Also supporting our cash balance at January 31 was our strong receivable collections during the quarter. The overall health of the receivables remains very strong with an ending days sales outstanding of 46 days at January 31, down from 50 days at April 30, 2009.

During the quarter, the company benefited from its hedging program that was implemented in 2008. The impact of the hedges reduced the costs in the current quarter by approximately $600,000.

We remain committed to our hedging program and the cost certainty it provides and extended our hedges out to the fourth quarter of fiscal 2012 at an average rate of 93 cents in that quarter.

In conclusion and consistent with our dividend - current dividend policy, we announced our regular dividend of US 15 cents per share for all shareholders of record on March 31, 2010 payable on April15, 2010.

Over to you, Michael.

Michael Harris: Thanks Doug.

We're pleased to report another solid quarter based on growth in ALM licenses, a good quarter from the IO team, and careful management of operating costs, even as we increase our investments in field operations.

While generally speaking we are still seeing capital budget constraints, which are holding back spending on licenses, we have continued modest deployments in our growing base of major long-term accounts to address the key business challenges that our customers are facing.

And while none of our license sales were particularly large this quarter, we continue to see a rebound in repeat orders coming in from our most strategic customers and always - and as always are looking to increase the breadth of our license footprint with these customers.

As we emphasized in the past few quarters, the majority of our new strategic license opportunities are with companies trying to cope with the increasing complexity of their embedded software development and testing operations.

These incremental accounts will in turn play a part in us building our fiscal year 2011 results as we work to make the initial project investment successful and then grow further from there.

The IO team continued to contribute significantly to the overall results again this quarter while closing deals at some key strategic accounts in our most targeted verticals within the embedded technology market.

Part of this success came from the continuing integration of the IO sales teams into our ALM sales teams. Specifically we have had success integrating the sales and marketing capabilities where we are now cross-selling product lines into key accounts for MKS.

In the same manner as the ALM team has focused its energies on more activity and a smaller number of carefully targeted accounts -- we have also done the same for IO -- then the overlap of customers is almost 1-to-1 -- that is the best customers for our toolkit line of products who install a runtime version of these licenses on their engineered products, whether it be automotive parts or medical devices, are also looking at MKS Integrity as a more effective way of managing their development.

Going forward, as ALM and IO converge around their most strategic customers, the relevance of reporting on these two as - these as two distinct segments becomes less important.

Our service revenue was down modestly from the prior quarter due mainly to the fewer working days in the quarter from the - for - due to the holiday period.

This being said, we built significant additional backlog with more than $3.7 million of new service bookings based on several longer-term projects, which will allow us to better plan out our resourcing over the coming quarters.

Based on this growing backlog, we are actively searching for additional customer solutions engineers to further help us deliver these service engagements.

As with prior quarters, more and more of our professional services over time are dedicated to high value software development process improvements as opposed to simple implementations of the platform.

As we spend more time working with the leading engineering companies in the world on a global level, we are better able to learn from these experiences and bring them to the best of our customers.

We continue to increase our focus on embedded technology product companies -- that is companies that put software and hardware devices to produce the end product or a component of the end product.

In today's world, the number of companies developing such products is growing every day as mechanical controls give way to software controls that can add significant new capabilities to products in automotive, aerospace, medical devices, and other advanced manufactured products.

In many cases, the software itself has overtaken the rest of the components on the devices such as the hardware and electrical components as the main competitive differentiator, so much so that the software itself is the mechanism through which the consumer or end user of the product most directly experiences the product, not to mention the overall product quality.

But along with that enhanced capability comes additional complexity, quality changes, and risks that manufacturers need to address through better control over their software development.

With the software complexity exponentially growing, so do the chances for introduction of errors and subsequent degradation in quality. More than ever before, this taming of software intricacy to improve the user experience is at the forefront of leading global manufacturers.

Many of these global leaders are turning to MKS due to our market-leading platform and the experience we have gained from implementing these controls in embedded system software development organizations worldwide.

Many of the industries where these challenges particularly ring true are within the target vertical markets in which MKS has maintained particular focus, including the automotive, aerospace, medical device, and electronic sectors.

All of these vertical markets are faced with significant regulatory and competitive pressures. And all of them involve the assembly of multiple components from dozens of suppliers, many with their own software component, which then must all work together in the final product.

MKS has historically been very successful in these markets and we see them as future rapid-growth sectors and subsequently are hiring additional domain experts in these areas to build out or highly experienced teams.

Based on this increased focus on these key markets in particular, we're also turning our R&D attention to ensuring that we more completely round out our solution include tools that are of interest to those customers and prospects.

Our strategy has always been to focus on integrating with the key point tools used by all software engineers. And this strategy has seen us successfully delivering world-class integration with IDEs such as Eclipse and Visual Studio and the key Microsoft products such as Excel and Word.

As we move further into the embedded software market, we find more and more of our customers requiring integrations into their software modeling tools in order to better manage the connection between these models with their initiating features and requirements all the way through to the verification and test plans. It is exactly this complete traceability, which MKS Integrity offers as its core value.

As such, when the first of these integrations is released in the next couple of months, it will mean us bringing to market the first true modeling and end-to-end ALM integration in the market.

As mentioned over the past quarter, we have started to grow the team to ensure that we can better manage the progress of deployment, particularly in our key accounts.

We added to our research and development team where we are ensuring that our platform is more scalable and resilient and implementable than ever before. We've also added both sales reps and customer solutions engineers to the field teams to build their ability to take the technology to the market.

On the field team hiring, our increased focus around the fastest-growing software markets with an embedded technology has meant that we are able to be far more targeted in our hiring.

For example, we have been successful at recruiting strategic account managers and engineers who have developed considerable business at advanced manufacturing companies through implementing the adjacent PLM solutions to manage the lifecycle of physical technologies.

These accounts have implemented effective processes across the value chain to manage the development of the hardware and electrical components that are now struggling with how to tackle the most complex and differentiating part of their product development, that being embedded software.

These prospective customers tell us that the PLM providers are simply not able to manage the extent, nor the complexity of multiple product code lines, hundreds of requirements from an equal number of customers producing thousands of software variants.

Our new account managers are able to go back into their customers with a solution that solves the most pressing problem, which is the development and testing the software itself.

During this final quarter of the year, we are focused on three critical areas -- first of all, signing new major customers that we can grow over time; second closing the immediate license deals in existing long-term accounts; and lastly further developing some new name target accounts for those accounts that we expect to add to our customer roster over fiscal 2011.

Success in these initiatives will deliver the long-term license growth that will drive continued long-term improvements in productivity.

Back to you, Phil.

Philip Deck: Thanks Michael.

As the global slowdown continues to ease, and as companies of the world begin to focus once again on the long-term growth, and as they continue to commit capital to improve their ability to grow, MKS stands very well positioned.

The chief long-term driver for our business is the unstoppable trend towards the replacement of mechanical and electrical controls that are software-driven. Software controls offer essential improvements to products across many industries, but their implementation has to coincide with substantially improved capabilities to manage those complexities and the testing and quality of those components.

This is a global trend and every manufacturer of advanced products must participate. This is a mandate for which we believe MKS Integrity is ideally suited above all others.

Combined with our vast experience at the implementation of these systems at global scale, we offer an unparalleled capability to manage this critical transformation.

As Michael has outlined, we're steadily increasing our investment in our abilities to reach these customers and to build compelling solutions based on our products.

But as we make these critical investments in growth, we continue to be committed to doing it profitably. This quarter we increased our trailing 12-months EBITDA productivity from $7 million to $9 million and reached record cash of $22 million.

Our maintenance revenue base provides critical support for growth. Our hedging program has reduced the currency risks over the next few years. And our strong balance sheet gives customers and shareholders alike the confidence that we can achieve our ambitious goals.

We appreciate the support and confidence of our shareholders and look forward to reporting on our progress in the months ahead. We'd now be pleased to take questions from analysts.

Operator: Thank you.

Ladies and gentlemen, if you'd like to register for a question, please press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the 1 followed by the 3. And if you are using a speakerphone, please lift your handset before entering your request.

One moment, please, for our first question.

And the first question comes from Scott Penner with TD Newcrest. Please proceed with your question.

Mr. Penner, please check your mute button. We're unable to hear you. Or lift your handset.

Scott Penner: Oh, sorry about that.

Yes, just one topic for discussion is the indirect channels, how that is progressing, both BMC and through the systems integrators.

Michael Harris: Yes, so the - we've been spending more of our time focused with the systems integrators and BMC on moving them more towards the IT focused companies.

So, you know, I would say our biggest distributors right now are BMC and Mitsui Knowledge Industries in Japan. We're working with another systems integrator that we hope to announce next quarter. And we're - actually it's (Canon Software) as well.

And we're focusing them on the IT companies where we're focusing most of our time in the embedded side.

So, you know, we did a follow-on deal with the Department of Energy, which we did a deal with BMC the quarter before. We expect to do another fairly significant deal this quarter with them with a different account.

And so the way that BMC is shaping up is they're doing a lot of our federal US business. But that's been the extent of the partnership has been already focused around the - more of the IT companies.

Scott Penner: And is there any - have you shown up on the radar screen of any of the larger systems integrators? Or is that really even an avenue worth you guys pursuing at this point?

Michael Harris: The announcement that we hope to be making next quarter is certainly one of the larger ones. But for the most part, we've been working on the more midsize systems integrators, particularly in the federal space.

As well, you know, we're doing a lot of it with the integrators Lockheed Martin and Northrop Grumman and ITT Electronics that are doing some very specific work for the federal government, but it's less of a resale and a distribution partnership. It's more we're working together with them to deploy licenses where we get the licenses and they do the follow-on services work.

Scott Penner: Thanks.

And, Mike, just one more thing, and that is $1 million deal, or I guess not the $1 million deal, but the backlog of customers that were signed with limited initial licenses last fiscal year. It sounds like you're feeling a lot better about your ability to get some material deals out of those guys.

Michael Harris: Yes.

I think what we're seeing is probably a lot more smaller opportunities coming out of that account. They're tending to bite off in smaller chunks than I think we would've thought. I mean, we were quite happy with the shape of the licenses we did this quarter because they were spread out amongst a bunch of our targeted - or a bunch of our long-term strategic accounts.

So, you know, I would say generally that the volume that we expect to get out of these key accounts over the next 12 months is as good as we thought it was going to be, but I would say it may not be in as big of lumps and chunks as we may have seen in the past. So...

Scott Penner: (Okay).

Michael Harris: ...our customers are tending to buy maybe smaller projects more incrementally, but on a more regular basis. So we've had half a dozen customers that bought this quarter that have probably bought three out of the last four quarters.

Scott Penner: Okay, great. I'll pass the line. Thanks.

Operator: Thank you.

The next question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Please proceed.

Thanos Moschopoulos: Hi, good afternoon.

Just to expand on the last question, Mike, would your comments also hold true for potential new customers in addition to sort of the existing house accounts? In other words, would new customers also most likely be buying in smaller chunks over a gradual period of time rather than sort of the sizeable upfront deployments?

Michael Harris: New customers have almost always historically bought in fairly small chunks. They never, you know, the bigger customers would only normally buy, you know, maybe 5% or 10% of their ultimate capacity in their first investment. That typically tends to be the case. They do a - what they'll do is sort of a proof of concept or a pilot and then two to three to four months later make the bigger investment.

So whether or not you consider that big investment the, you know, the new customer or not, they've gotten started with us with the pilot for a smaller amount.

So, you know, we're seeing - we're looking at, you know, four or five new accounts we're hoping to win in this current quarter who are potentially quite strategic. All but one of them will be fairly small investments and one I think, you know, has the potential to be a bit larger.

And I would say mainly the new customers are buying small, up front, let's test it out, make sure it works, and then make the bigger investments after that.

Thanos Moschopoulos: Okay.

Philip Deck: Certainly in our history we've seen that multimillion dollar transactions come after (at least) 18 months of smaller purchases in the couple hundred thousand dollar range, so, you know, that pattern is still probably in place.

Thanos Moschopoulos: Okay.

And how's the pipeline shaping up for test management? Is it making a difference as far as some of the new accounts you're talking to? Or is there pipeline-building as far as up-selling into some of the existing base?

Michael Harris: The test management has been wildly accepted as part of the component of Integrity. We're not seeing customers who are out looking for test management specifically, but all of our customers who have - are either implemented requirements or are underway implementing requirements, particularly in embedded software, are also looking at what does this mean for test management.

So if we're spending all of this time implementing the process for determining and documenting the requirements, now we need to make sure that we have the equal and opposite of that is the test plans and the test steps that are associated with each of those requirements.

So I would say we're doing really well with test management in embedded. And we're probably spending less of our time in the IT side. But any customer who's looking at requirements will be looking at test at the same time now that we have that capability.

So we're pretty happy with the adoption I would say.

Thanos Moschopoulos: Okay.

On the OPEX front, would it fair to assume that I guess expense will be pretty stable except for a bit of - some ongoing selective hires in sales and marketing and then maybe a bit of a seasonal increase in Q4 for variable comp? Is that the right way to look at it?

Michael Harris: Yes, I think that's pretty - that's a pretty accurate way to look at it. There's not going to be any incremental annual variable comp. I mean, it's all paid quarterly for the quarter, so, you know, if we have a better quarter, there will be more variable, but it wouldn't be attached to an annual amount.

Doug, is there anything else?

Doug Sawatzky: No. No, other than, you know, the other main driver on the cost would just be the - you know, the hiring and as the new hires come on, the impact of those costs. But no, your statement, Thanos, was pretty accurate.

Thanos Moschopoulos: Okay. Okay.

And then I guess my last question is you were talking about more integration with some of the modeling tools out there.

Michael Harris: (Unintelligible).

Thanos Moschopoulos: What are some of the big ones that you see your, you know, clients and your prospective client base integrating with or using frequently?

Michael Harris: Well, the big ones in the market are Mathworks, Artisan, Enterprise Architect, (Skade), you know, anybody who's - anybody in the aerospace and automotive particularly, those would be the big four. There's lots of other ones as well.

But those are the ones that we're seeing as the most important ones that are going to get the best customer adoption.

And there are some - a couple pretty important proof of concepts that we're - we will be starting in the spring where the modeling integration is a key component of that. and many of these heavy design firms that are working with suppliers of various different parts heavily rely on modeling as the - really the killer application for their software architects and engineers where they do all of this design.

So as we move more upstream into the, you know, the feature planning and requirements and feature design, this is becoming more important. So I think this is going to be a very competitive differentiator for us, particularly when we add the test integration because there really is nothing on the market, no, you know, single solution that integrates all the way from requirements to test for modeling. So I think it should be exciting for our customers.

Thanos Moschopoulos: Okay, that's great. Thanks. I'll pass the line.

Operator: Thank you.

Our next question comes from the line from Tom Liston with Versant Partners. Please proceed with your question.

Tom Liston: Hi, thank you. Good afternoon.

Michael or Phil, just on embedded systems versus IT as a whole, whether direct or via your partners, what would roughly be the split over the last few quarters perhaps and maybe more importantly the pipeline between those two groups, if you can try to make a distinct - make a distinction between the two?

Michael Harris: Well, I would say 3/4 to 1/4 number, well, total revenue I would say historically, I would say almost all of the significant kind of multimillion dollar or million dollar or more projects and accounts that we're working on, almost all of which are embedded. I mean, you know, nine out of ten, so they represent a pretty significant portion of the revenue.

There, you know, there are related industries that are tied into that, so, you know, the telco providers, you know, Verizon Wireless and Deutsche Telekom and others, they're quite connect obviously as a customer of the manufacturer.

And so we're starting to see them be an important part of that ecosystem. And then I would say the other one was a bit of crossover is in the pharmaceutical area and then the other medical areas where there's a bit of embedded and a bit of not embedded.

So it's pretty hard to distinguish those two. But for the most part, it's, you know, all of the growth and all of the very big projects are engineering-related.

Tom Liston: And would it be fair to say - you know, competition is always intense, but would it be fair to say maybe the breadth of competition isn't quite there in that space? In other words, maybe to put it another way, your win rate should be a little bit higher in the embedded system?

Michael Harris: (Unintelligible) the project win rate as in they actually move forward with a project is much higher in engineering. The competition is really just mainly one other. It's just pretty much us and IBM when it comes to the final two in embedded. And it really is just those two.

And, yes, I would say our win rate is measurably higher in engineering than embedded. Or, sorry, engineering than IT. But most importantly, the sales cycles tend to be a bit shorter. You get to focus more on, you know, really understanding the business issue and how we can use the technology to solve the problem.

So we shine better I think with those companies than with IT companies. We're still doing well and we still, you know, we, you know, we won a banking mandate - not a mandate, but a banking opportunity recently and we've won some pharmaceuticals. So it's not over for IT, but our main strength continues to be embedded and I would say is growing.

Tom Liston: Okay.

And Doug, obviously a big maintenance quarter, but with the currencies it's a little bit more difficult to tell. I assume the renewal rates are still in the sort of low 90s? Is that a fair assumption?

Doug Sawatzky: Yes, no, our renewal rate has held constant over the last, oh, you know, last 8 to 12 quarters actually. And, yes, so there's, you know, no degradation there.

Michael Harris: Ninety four percent, is that?

Doug Sawatzky: Right around there, yes.

Tom Liston: And the other question about OPEX, the way your currency hedges work, you will see an increase as you kind of move off that 80 type of level more to the low 90s level, correct? Rate in the line items, correct?

Doug Sawatzky: That is correct.

Tom Liston: Okay.

And just finally, a small question, IO, maybe you mentioned it, is it that the strength a little bit more just year-end stuff that you maybe didn't see last year? Or is it somewhat to do with the - part of the adjustments you're making to the sales process and then combining some of the accounts and working together with them?

Michael Harris: Well, it's not year-end. It's really...

Tom Liston: Well, December. The customers' year-end, perhaps, December being maybe (unintelligible)...

Michael Harris: Oh, yes, yes, we had - I mean, in this past quarter we had two pretty great deals from two customers, one of which new and one of which existing actually.

Look, we're just focusing a lot more of our energies on these key customers. We will drive most of our revenue from a fairly small list from IO and we're really focusing a lot of energy on them.

And a lot of them are embedded in technology companies. So we're now starting to talk to all of them from a cross-selling point of view. So one of the deals that we're working on, we're actually selling both NuTCRACKER and Integrity this quarter as part of a package deal.

So I would see us, you know, the overlap between these customer bases is something that maybe we should've realized a big sooner, but we're certainly realizing that now and just dedicating more resources at a fewer number of targeted customers, much like we have done with the ALM business. And it - it's working out.

Tom Liston: Great, thanks. That's it for me.

Michael Harris: Thanks Tom.

Operator: Thank you.

Ladies and gentlemen, as a reminder, to register any questions, please press the 1 followed by the 4.

And the next question comes from Michael Urlocker with GMP Securities. Please proceed.

Mr. Urlocker, your line is open. Please check your mute button. We're unable to hear you.

Michael Urlocker: Ah, yes, sorry. Good afternoon.

I wonder if we could explore the business from the point of view of customer demand. And, you know, not to be exploitative, but there's been some developments in the automotive industry where, you know, some software failures have been identified by manufacturers.

Can you put this in a context as to whether that creates any impact on your business in either increasing demand or perhaps delaying projects, wither way?

Michael Harris: Well, I don't think it has slowed down. I don't think it's created any delays in any projects.

And I think it, you know, I mean, these people who are operating these businesses have known for a whole the importance of software in the overall product strategy.

But I think maybe at the most senior level, it just provides more visibility into what the software means on a hardware - on a piece of technology. And, you know, I talk to customers all the time and you can see - you've seen over the last few years or five years a pretty dramatic change from companies that you would consider to be hardcore hardware companies that are doing - that are selling products to they're starting to talk about themselves as a software company that embeds their software on these devices.

And so, you know, there's - they're in various different states of transition from hardcore software - or, sorry, hardcore hardware to technology companies that mix and match various different software components under various different hardware platforms and housings and electrical units.

So I think for those companies that may have been a little bit further behind on the transition, this would've helped. The different instances in the marketplace would help.

But for the most part, you know, we - this has been - we've been very aware of this transition over the last few years. Our customers certainly have been. There's just - there's more press on this.

And I'm not sure there really is a big net advantage, but the momentum is certainly going the right way.

((Crosstalk))

Philip Deck: ...I think the important thing is that it's not a matter of a couple of companies having a problem. It's a matter of every single company in the industry having to seriously change the way they're doing business. And the ones that haven't had problems yet are just the ones that are - haven't had them yet and will have them.

Michael Urlocker: Right, okay.

And certainly in the wireless industry, we're all aware of the growth of smartphones. What does that complexity do for your prospects in that industry?

Michael Harris: It - well, the complexity is enormous. I mean, these people have gone from, you know, issuing - producing one or two different models per year with four or five major carriers to half a dozen products per year and tens or dozens if not 100 or more carriers, each one of which has slightly different versions and all of the carriers asking for their specific capabilities to be able to move their individual phone.

So these people have gone from, you know, effectively issuing 10 or 20 different products to hundreds of different products. And then when they're finding bugs on one product, making sure it's fixed across all of the different product lines that exist.

So what you see in the smartphone business is, you know, the R&D teams who have gone from, you know, X number of hardware engineers and the same number of software engineers where the software engineering team has remained fairly static and they're only growing in the software engineering side to help manage this complexity.

So you've gone from, you know, what was very hardcore embedded technology on a device to, you know, an open operating system with many different applications, both written internally, plus from the market, who are all trying to make these different applications work together with each other on that operating device on that phone with a new version coming out every six months to a bunch of different carriers. I mean, it's insane.

((Crosstalk))

Michael Urlocker: ...I mean the point - I'm hoping to hear that this makes them wants to buy lots more software from you.

Michael Harris: I was going to say it's insane for them and it's wonderful for us because, you know, that you can't throw enough bodies at this to solve the problem.

You need to be able to put an infrastructure in place to be able to manage this chaos. And that's the biggest driver for us right now.

Philip Deck: It certainly will help us to the extent that engineering groups need to get access to capital budgets. Then, you know, the environment is probably causing that to be a bit easier.

Michael Harris: Good point.

Michael Urlocker: Okay, excellent. Thank you very much.

Operator: Thank you.

And I'm showing no further questions at this time. I'll turn the conference back to you.

Philip Deck: Thank you very much. Well, we appreciate everyone's attention and thank you for joining us on the call and look forward to reporting more on our results in the months ahead.

Thank you.

Operator: Thank you.

Ladies and gentlemen, that concludes our conference call for today. We thank you all for your participation and ask that you please disconnect your lines.

Have a good day.

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