MKS, INC.

Moderator: Philip Deck
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4:00 pm CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the MKS FY2008 Q4 Year End Results conference call.

During the presentation all participants will be in a listen-only mode. Afterwards, we will 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, June 3, 2008.

It is now my pleasure to turn the conference over to Philip Deck, Chairman and Chief Executive Officer. Please go ahead.

Philip Deck: Good afternoon and welcome to the MKS Fourth Quarter conference call. I'm here in Waterloo with Michael Harris, President and Chief Operating Officer and Doug Sawatzky, our Chief Financial Officer.

But I'll first turn to Larry Wasylishyn, our Legal Counsel for the 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 depends 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 statements due to, among others, those factors set out in MKS' 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. Today MKS reported financial results for our fiscal year ended April 30, 2008. Consistent with the preliminary information we released last month, we set records in virtually all financial categories.

Leading the way to these outstanding results was our ALM license revenue which rebounded from fiscal 2007 with a 50% increase to $23 million.

Leading the way in licensing was a milestone $5 million deal with one of our major automotive customers. That transaction has not only demonstrated the capabilities of our MKS integrity products, but also our competitiveness in large scale engineering accounts.

But our strong license performance was not limited to one deal. We enjoyed company wide license revenue strength, particularly in requirements management led ALM mandates where we signed up new deals across our markets with new and existing customers alike.

In the fourth quarter we showed particular strength as we'd anticipated in last quarter's conference call with over $10 million in new ALM license transactions far exceeding any previous mark.

Our service business continued at steady growth and excellent management of both our backlog and growing network of service delivery partners. We set a new record for revenue in services in the fourth quarter and saw a further deepening of backlog.

In our interoperability business, we saw the usual fourth quarter revenue relative to the rest of the year, but the overall trend continues to show a steady decline.

Closing cash balance at April 30, 2008 was $13 million, up from the $11 million at January 31, 2008. Our cash grew primarily due to the normal maintenance renewal seasonality in our business.

We had an extremely high level of receivables totaling over 16 million at the end of the year as a result of strong sales in the quarter. This has declined substantially since then and we're today closer to normal levels.

MKS is substantially impacted by changes in exchange rates between the US dollar, our reporting currency, and our other primary operating currencies, the Canadian dollar, the Euro and the Pound.

The chief impact of currency changes this year have (been) to significantly increase the expenses that we pay in Canadian dollars and modestly increase the net margins that we earn in Euros and Pounds.

In fiscal 2008 as a whole, we experienced costs $3.2 million higher than fiscal 2007 due entirely to this factor.

The recent rapid changes, particularly in the Canadian dollar in the first half of the year, somewhat delayed the pace of our return to acceptable profitability levels, so we have more - but we have more stable rates in recent months and the improvements in our maintenance revenue have largely offset the additional currency costs at these levels.

I will now turn to Michael Harris for a review of Q4 operations.

Michael Harris: Thanks, Phil. We're delighted to report record ALM maintenance services and particularly license results, not only for the (tough) quarter, but also all of fiscal 2008.

On the last quarterly earnings call, we stated that we had spent much of fiscal 2008 developing opportunities in our key accounts and were looking forward to a strong finish in the coming three months as we executed on our goal of MKS revenue growth driven by ALM license growth.

Our recent results demonstrate that these investments over the past year have clearly started to pay off in the financial term. We are also seeing mounting evidence that the investments that we have made in expanding the capability of MKS integrity and our efforts to build our profile in the ALM market are similarly bearing fruit.

This quarter saw another record surpassed, that being the largest single transaction for MKS integrity which we announced in March. But as Phil mentioned, our quarter was not built on one deal alone.

Unlike the third quarter where we had no license transactions at greater than $200,000, this quarter we closed six license transactions of greater than this amount.

Some of the new name accounts where we landed (beach) heads and expect further sales going forward include: Agilent Technologies, Denso, Mitsui Sumitomo Insurance, Selex and StraTec Biomedical Systems.

Some of our more notable follow-on wins in the quarter included those from Ameren, Chase PaymentTech, Continental, Deutche Telecom, HSBC, IT Frontier and TRW.

The IO team had another seasonally strong finish to the year with the best quarterly results in fiscal 2008 of $2 million and operating income of more than $600,000.

Even with this increase in annual revenue, we continue to be effective in managing headcount and other costs. We finished the year averaging 305 headcount over the quarter, a 6% decline from the average in the fourth quarter of fiscal 2007.

The ALM sales rep headcount average was 37, a decline of 5 from the previous fiscal year, 4 from indirect sales reps and one from the direct sales team.

Q4 showed a massive improvement in per sales rep productivity of 167% from a year ago to $398,000 per rep this quarter. Going forward, MKS is planning to hire steadily in both field sales and services, and in product development as we continue to invest in growth.

Furthermore, we think that we can get there without adding to corporate overhead and will best benefit from further leverage from our existing infrastructure.

Our year-on-year services growth continues to be very strong with a 69% increase over the fourth quarter of fiscal 2007 to $2.4 million. The services work that we performed continued to be mainly represented by our most strategic customers and perspective accounts.

This work, of course, is expected to deliver more licenses as validation of our value in (these) accounts is delivered.

On the marketing front, development of our position within the ALM sector progressed well in the quarter. As part of a month long webinar series on Application Lifecycle Management, we demonstrated our capabilities across the application lifecycle looking at requirements management, software change and configuration management, test management and release management to potential prospects.

MKS also participated in several events, including the (Common) Conference and Expo, the largest gathering of IBMI users in North America. More progress towards positioning ourselves with the media as a thought leader continues with a three part article to the Requirements Networking Group about requirements in bridging the silos, which we contributed to.

We also contributed an article to Military and Aerospace Electronics titled Contractors Need to Adopt Next Generation Requirements Management Technology and were featured on (gangent.com), CM Crossroads and in software magazines for various topics related to requirements management.

And speaking of requirements management, during our last call we spoke about our placement in Gartner's first ever (magic) quadrant for the software change in configuration management market where MKS was positioned as a leader with the most complete vision out of all vendors, including IBM and Microsoft, among others.

Most recently, we have been lauded in another first ever publication of an independent evaluation - this time Forrester Research in their Forrester (Wave) Report on Requirements Management.

Forrester included IBM, HP, (Boil) and Microsoft as four others in the study. In this report, MKS integrity scored the highest of all products for our current offering.

The report states the strength of the MKS solution demonstrates the power of specific requirements management functionality built on top of an ALM platform.

From the initial launch of our ALM strategy, we have focused on the advantages of integrating the major disciplines of the application lifecycle. It has always been our position that requirements management solutions as standalone products simply do not solve the challenges being faced by today's enterprises.

This report supports our claim that in a very short period of time MKS has brought to market the best products available. According to Forrester, I quote, "In an upset, the three year-old requirements management capabilities in MKS's ALM solution turned in the highest current offering score in our evaluation, beating even (Telelogic Doors)."

The evidence continues to mount that MKS integrity is the new technology leader in requirements management. Our momentum continues to grow. In summary, we start fiscal 2009 from a more solid foundation than every before.

We made progress in all areas of revenue: ALM license, ALM service and ALM maintenance. We continually deploy follow on licenses at our top accounts.

We regularly add global technology leaders to our already impressive roster of accounts and the industry analysts continue to validate our thought leadership in the market.

All of us at MKS are excited about the prospects of another successful year as the emerging leader in the ALM market. Back to you, Phil.

Philip Deck: Thanks, Michael. As Michael indicated, for the second time in six months we've been awarded top marks by independent analytical firms with Forrester Research.

Coming on the heels of our similar top product ranking in the Gartner Group (magic) quadrant, this further established MKS as the technology and thought leader in the ALM market today.

We'll be instrumental in further building our profile and sales pipeline. We spent a great deal of time talking about license revenue, our new (beach) heads enterprise wins and sometimes our quarterly lumpiness.

License revenue takes a long time to build, requires outstanding product capabilities, an experienced sales team, and is often quite - and often quite a bit of patience.

It's certainly the leading edge of our business. Well we shouldn't forget the most delightfully boring component of our revenue stream, one that sometimes gets overlooked.

Our maintenance revenue has show the most steady growth and highest margins of any component of revenue over the years. Its growth has allowed us to weather the approximately $10 million hit annually to margins that we've had to absorb from Canadian dollar appreciation over the past few years.

And it's the evidence that we have of continued satisfied customers that will support our company for years to come.

This year, we have recorded $23 million in ALM maintenance revenue. Annual cash flow that's not only high margin, but backed by a roster of diversified customers from around the world.

And it's that foundation that allows us to make the essential investments in the expansion of our sales force and the essential improvement to our already world-leading product to make sure we can continue to grow over the long term.

In lieu of specific financial guidance, we've tried to reiterate the longstanding principles that we've followed in pursuing our strategy. They have not achieved everything we could hope for in terms of shareholder valuation, but we're convinced that they've allowed us to create one of the most exciting growth stories in the enterprise software market today.

We remain committed to profitable organic growth in our primary operating segment, ALM. We strive to maintain a balance between increasing shareholder returns and funding internal investments for long term growth.

The steady growth of our maintenance revenue offers significant potential for operating margin improvement over the long term. Similarly, increases in the scope of our field sales and services team, and in the capacity of our engineering organization, represent the most significant enablers to our long term growth.

But they require immediate commitments of cash and recognition of costs with the future returns extending over several years. We planned for slower growth in operating margins than we could otherwise achieve in order to fund investments in sales, marketing and engineering needed to achieve strong long term revenue growth.

The largest uncertainty in maintaining the balance between profitability and long term revenue growth is the variability of license revenue on a quarterly basis.

This variability is expected to continue as the average size of transactions may increase as quickly as the magnitude of overall revenue. We expect a continued decline in the interoperability business of approximately 10% annually.

Our Board of Directors yesterday approved our regular dividend of $0.02 per share consistent with our policy to return cash not needed to fund growth to shareholders through a regular dividend.

We appreciate the support and confidence of all our shareholders and look forward to reporting on our progress in months to come. I would now be pleased to answer any questions from analysts. Operator?

Operator: Ladies and gentlemen, if you would like to register 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. If you are using a speakerphone, please lift your handset before entering your request.

Our first question is from the line of Tom Liston from Versant Partners. Please go ahead.

Tom Liston: Thank you and congratulations on the quarter. Just - the first question, I'm not - it might be in the MB&A and I apologize if you gave it, but can you give us the number of say deals over $50k and over $250k, perhaps, or however you break it out?

Philip Deck: Mr. Sawatzky will give you that.

Doug Sawatzky: Right. So what we've been tracking is the deals over $100,000 excluding any maintenance renewals. And in the fourth quarter, that amounted to 19 deals compared to 7 in the third quarter and 14 in the fourth quarter of fiscal 2007.

Tom Liston: Okay. And Phil or Michael, the - can - I think one of the big ones at least was requirements management driven. Can you characterize those 19 deals as what was driven more from requirements managements versus broader purposes?

Philip Deck: I'd say that requirements management is a significant factor in probably the majority of our deals these days, either for immediate use or the prospect of, you know, of use in the medium term.

You know, a bunch of those deals were requirements management only, so they were people how had an exclusive RM mandate and weren't necessarily looking to use anything else in the lifecycle right away.

But I would say that the more important shift was a lot of engineering customers rather than IT. So, you know, we continue to have a good business with IT customers but it's really the engineering companies - those either developing software, manufacturing electronics or doing embedded systems where the most exciting part of our growth is and probably the most requirements management driven growth.

Mike, do you have anything else on that?

Michael Harris: No. I mean, I would say, you know, at some point Tom, you know, all of ALM - anybody implementing ALM is implementing some requirements change and that's been our philosophy the whole time.

So it - you know, I see no - software development either starts from a requirement to build something new or maybe to fix something that's broken. And this has been our philosophy.

So there is a requirement driven project in probably almost every single one of the 19 top deals that we did.

Tom Liston: Sure. Part of it mainly was what was mandated in the - you know, so the (RFP) process, et cetera. So who are - is it obviously - I mean, (Doors) is obviously the highest (mind) share.

Can you comment on who you're seeing the most, who you're replacing the most and now that there is some momentum with the industry analysts on this CL? Does - are people obviously much more focused in terms of understanding that you're - you have a competitive offering and you're getting that much more pilots?

Can you describe the conditions on that piece?

Philip Deck: I think it's important to remember that although (Doors) is well-known in the RM market that the majority of the market is using things like Word and Excel or even more rudimentary tools to do requirements management.

So in probably a majority of the cases where we sell software, we're not displacing another leading RM product. We're actually - it looks more green fieldish in the sense that they're still using either Excel or Word, or something like that to management requirements.

But I'd say that in the last quarter, we've competed with just about everyone that's really a significant factor in the market and we're extremely pleased with our win rate against all of them.

Tom Liston: And Michael, did you give sales productivity metrics? And the second part, are you now open to start to hire again given the recent success?

Michael Harris: Yeah. For the quarter, Tom, it's 400,000 per rep and obviously the one large transaction affected that significantly. And yeah, we've already started to hire - we've had, I think, I believe two reps hired in May.

But yeah, we're - all regions now are actively searching for new reps.

Tom Liston: Okay. And Phil, you probably don't want to give too much guidance here, but I have to double check the number - but EBITDA probably came in around 10% or just a stick under for the year.

Are you suggesting probably keep that percentage roughly in line and make sure you grow the license as it feeds in the maintenance or do you think there's a few percentage points to be had there on the EBITDA line?

Philip Deck: Yeah. I mean, we're not giving any specific guidance but I think that since that we'd like to see some improvements in overall profitability over time, it is true. I don't think we're quite at the profitability level we'd like to be.

But at the same time, we just want to caution people that we intend to continue making investments in the business. So although certainly if we were managing only for profitability we could be much, much more profitable, you know, we're still incredibly enthused about this market, you know, about our growth opportunities in it.

And so, you know, our profits are going to grow slower than they would otherwise because we still have investments to make here. And as, you know, people have to get used to in this business, the investments we make in our business all go through the P&L and they all cost in the current period.

We don't capitalize anything, so those investments do affect our earnings on a go forward basis.

Tom Liston: Great. Thank you. I'll pass it along.

Operator: Our next question is from the line of Scott Penner from TD Newcrest. Please go ahead.

Scott Penner: Yeah, thanks. First of all, I wanted to clarify one of the comments I think from you, Mike. The - you mentioned currency and a 3.2 million expense impact. Is that the, I guess, the effect on total operating income of all currencies thrown in?

Philip Deck: No. That was actually me, Scott that made the comment. And the comment is just on the cost side. It's not net of any revenue impact. It's very difficult to measure the revenue impact because you end up taking some currency impact in your discounts.

So you can't really measure it precisely. What we can measure precisely is taking all the expenses we had in the various currencies for 2008 and deflating those against 2007 currency rates.

So what we could tell you exactly is what our 2008 expenses would have cost us in 2007 and there's a 3.2 million difference in that.

Scott Penner: Okay, understood. And could you clarify, Phil I guess, what the strategy is on indirect partners and signing up more of them versus what I guess on the surface looks to be a decline in the salespeople devoted to that?

Philip Deck: I'm not...

William Harris: No.

Philip Deck: I wouldn't accept the last premise. You know, we continue to hire lots of salespeople so there's no sense that we're trying to displace our own internal sales force with partners at all.

We continue to make investments in our sales force. It's been somewhat hindered, I would say in the last year because of the focus we've had to have on managing costs because of the currency changes.

But we're not stepping back on that at all. I think that our partnership strategy which we're very excited about, very much comes on top of the core growth in our own sales and marketing organization.

And maybe, Michael, you can talk more about partnerships in general and where we're going with that?

Michael Harris: Yeah. I'm happy to talk about partnerships but before I do, Scott, I think I've misguided. When I talked about the net change in four indirect sales reps, I meant to refer to them as inside.

Scott Penner: Okay.

Michael Harris: So these are the lower value - lower price points people who aren't traveling around working on the bigger accounts.

Scott Penner: Okay, I got it.

Michael Harris: So that's where most of the decline was in headcounts, which is consistent with us targeting larger accounts and our growth going forward likely will be in what we call the regional sales manager more than the area account manager.

Scott Penner: Okay.

Philip Deck: But we'll tell you about partnerships anyway.

Michael Harris: And so - yeah man, we're delighted to talk about partnerships. It's a big part of our focus for this year and has been for the last couple of years. And, you know, we've made a very - had a very successful track record over the last couple of years of building up our solutions - our services partners who are delivering the overflow of services for us.

And we drive about 30% - well last year it was 30% of our North American services revenue through a partner, up from 15% in the prior year. And we expect to see that continue to grow.

Now we're in a lot more talks with much larger players - systems integrators who want to use us for their own use for developing and outsourcing to their customers, as well as potentially reselling the product as well.

And we've started to do that in markets where we don't have a big direct sales presence. Primarily in Asia-Pacific is where I would expect to see a fairly significant amount of our sales revenue coming from our partners who are - their normal course of business is as systems integrators.

So I would expect to see much more influence going forward from our partners in the reselling world.

Philip Deck: I would just add to that that our ability to form partnerships that really positively affect our business is changing very significantly and it's changing because of our increased stature and visibility in the market.

And that's partly just because we're bigger, you know, this year at 62 million. That's different from 48 million last year and so as we get bigger and as our ALM product line gets to be extremely large, the attractiveness of us as a partner increases partly due to the fact that consolidation continues to winnow out our competitive field, you know, as some of the very large companies in the industry consolidate the smaller ones so that really we're now one of the most significant kind of growing players in the market with most of our competition now being the very large firms.

And so that really makes us more visible than we have been. Things like Gartner and Forrester analyst reports that rate our technology highly also has an undoubtedly positive impact in increasing our visibility.

So that really helps us to form partnerships, not only with services companies and systems integrators that, as Michael indicates, but increasingly with technology partners and other software vendors where we can collaborate with them.

And that has some potential over the next - probably over the next year but even more so after that to help leverage our sales activities in the field.

Scott Penner: Now when I look back a few quarter, there were - there was quite a big drive to get services revenue up absolutely and at that point there was the talk of kind of moving services revenue almost in line one to one with license revenue.

I know that's, I guess, been skewed by some of the large deals. But do you think that now that your presence in the marketplace is allowing you to, I guess for lack of a better term, offload some of that to your partners?

Philip Deck: Well the - I think there's two trends that are important there. One is the increasing amount of services per dollar of license and that continues to increase on a fairly steady basis.

You know, when we talked about one to one, that was kind of a three or four year target coming from about 25%. We're now up to 40% or 45% kind of on an ongoing basis.

And that trend, I think continues to be in place and we're moving slowly up in terms of percentage of licenses. And that really is just driven by the fact that when you do enterprise deployments, the services load is higher than if you're selling to smaller teams.

But the second trend is the amount of those services that we're actually outsourcing to technology partners. And right now, that level is around 30% or 40%.

We'd be delighted to see it go up because as our services practice increases, we can have or we can afford to have a higher percentage that does source. We'll always have some capability ourselves, but it doesn't need to be as high as it is now.

And it'll really - and the growth of that will just depend on what kind of partners we can find and what kind of expertise can they bring to our customer base.

But we're still trying to develop our services partnerships and we do expect a higher amount of services per dollar of license revenue going forward.

Scott Penner: Okay. And what about the - I guess just the pipeline now that, you know, certainly you signed the one very large deal. What is the pipeline for just million dollar deals in general look like relative to let's say last quarter?

Philip Deck: Well I would say that the quality and quantity of our pipeline expands a lot more steadily than our quarterly results show. So, you know, we have lots of volatility in the quarter to quarter results because deals tend to be lumpy.

But when we look at the overall pipeline over the last couple of years, it's expanded very steadily and continues to. And we don't really have any metrics that, you know, we think would be wise to publish about pipeline because a lot of it is subjective assessment and it moves around.

But, you know, I don't think there's a whole lot of change in the pace of pipeline expansion, even though we - once in awhile we'll pull a big deal out of the pipeline.

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

Operator: Our next question is from the line of Lawrence Rhee from Blackmont Capital. Please go ahead.

Lawrence Rhee: Hi guys. Congrats on a record quarter. I just wanted to ask - could you just possibly categorize, you know, the reasons for kind of your success this quarter relative to other Q4's and maybe even just prior quarters in that, you know, product maturity or is it kind of Q4 sales incentives?

Has anything changed this quarter relative to prior quarters that have led to the success of this quarter?

Philip Deck: You know, when people asked us why our third quarter licensing was not very good we said it was lumpiness. And when people ask us when our - why our fourth quarter revenue was so good, it's lumpiness again.

And, you know, when - you know, I guess similar to the comment I made to Scott, the expanse of our business is smooth and - but what actually drops out and becomes reportable in any one quarter is lumpy.

And to the extent that people are trying to interpret the quarter to quarter variation in our license revenues to some underlying trend in the quality of our business, it's almost found to be misleading.

And so, you know, we really think that it makes more sense to track us kind of on a trailing 12-month basis as far as license goes because there's - you know, if anything, there's going to be I think more quarter to quarter variability because the average deal size we're looking at is probably increasing faster than the overall size of our business.

So that, you know, the effect of lump may become more pronounced not less over time. And I think all people can do is kind of look at it on a slightly longer term basis and, you know, we'll see what happens on a quarter to quarter basis in terms of licensing.

At least people can watch our maintenance revenue and services revenue which tend to be extremely stable and highly predictable.

Michael Harris: I mean, I think you know - I'd also add to that Lawrence that, you know, if there's - the top six deals that we did license transactions we did this quarter, all of them we've been working on for multiple quarters and all of them there's more to come.

So - in fact, the vast majority of them were from our existing customers. I think only a couple were new. But we're already working on the follow on transactions in every single one of those accounts.

So this is an ongoing basis and a couple more hit in Q4 than in Q3.

Lawrence Rhee: Got you, okay. And then I guess in prior years you've commented about challenges getting up to the CIO level to kind of look at your product. Has anything changed in that respect that may have led to some of the success of this quarter or how - and if not, then how is the progress on that front?

Philip Deck: Again, it's not a one quarter issue at all. It's - I think over the last two years we've really broken down very significant barriers in terms of our access to upper management and CIO.

And it, you know, that's come from two directions. One is that CIO's and CTO's are just more interested in this stuff than they used to be. They realize it's more important for their business and they realize that, you know, having a company wide strategy for doing application lifecycle management is now something that they should be dealing with, not just defining the requirements team to go buy a tool for their department and a diversion or the developers to go buy a tool for their department.

They realize it's part of their job to actually deal with this issue. So they're more interested in talking to vendors. The second thing is that, you know -- and this is back to my visibility comment -- when you make a short list of companies that you should be looking at in the ALM sector, first of all there's a lot fewer companies.

And second of all, we're a lot higher ranked than we were two years ago. So, you know, I can't see many industry analysts not putting us in a short list of three based on the fact that most of them think we're the top technology in the space.

And we're certainly the most dynamic growing kind of thought leader company in the space. So a lot of people will say well in my short list I got to have a big company or two.

But they're also going to say, but I want to see the hot company as well. And when it comes to the hot company, we tend to fall into that category most often.

So I'd say our ability to get to the CIO level is - and the CTO level is much, much better than it was two years ago. Again, it doesn't change in any measurable way from a quarter to quarter basis.

But that is no longer something that we have to obsess over the way we did two years ago.

Lawrence Rhee: Got you. Great guys, thank you.

Operator: Ladies and gentlemen, as a reminder to register for a question please press the 1 followed by the 4. Our next question is from the line of Thanos Moschopoulos from BMO Capital Markets. Please go ahead.

Thanos Moschopoulos: Hi. Good afternoon. Most of my questions have been answered. I'll ask the standard question about the macroeconomic environment. You guys obviously have a lot of exposure internationally which is good.

But as far as the US environment, are you seeing any change there? Is the pipeline continuing to hold up steady? What are you hearing from your customers from that perspective?

Philip Deck: I haven't seen any measurable change. Michael, would you...

Michael Harris: It was our best sales quarter in North America for quite a few. You know, maybe on the financial side there might have been some softness. But we're so spread across all of the different verticals that we're not really seeing anything.

It hasn't been a reason for us not to close business and I guess we're not seeing any decline in pipelines at the front end. So it appears not to be affecting us.

Philip Deck: We're certainly seeing no evidence in our maintenance renewals of any kind of problem with people wanting to support the products.

Thanos Moschopoulos: Okay. And then just going back to your earlier comments about investing in future growth, I realize you don't provide guidance but can you provide some color as to the order of magnitude in terms of the investments you plan on making?

You know, and to what extent will these precede revenue or would they really be in line with - you know, as the revenues increase, that's where you'll look to make some expansion in some of your areas?

Philip Deck: Unfortunately, the investments that we make always precede the revenues that would be attributable to them. It's sometimes by a couple of years. But I - maybe your question is more are we going to accelerate our investments more, you know, at a higher rate than where our revenue is going.

And I would come back to the very general statement to say that we'd like to see a somewhat higher level of profitability. And in getting there, we can afford to make some additional investments in the product.

I don't think you should expect any significant change in the pace of our investment. I would say over the last year we've expanded those capabilities at a slower rate than we would like, really driven primarily by currency related costs and our ability to try and manage through them.

I think that given - you know, in our business that our ultimate margin really comes down to the mix between maintenance which is extremely high margin and licensing and services which are much lower margins.

So, you know, as your maintenance portfolio grows, the additional mix of that high margin revenue affects your profitability a fair bit.

And in some ways, what we've done over the last year is tried to slow down the growth in our expenses and let our maintenance revenue overcome the additional currency costs that we've been hit with.

That's a - kind of a simplistic explanation, but it's largely the case. I think now that we're at a more - hopefully a more stable currency level, we can kind of go back to the pace that we've always been on in making those investments in the business.

But we're not going to take any radical departure from the kinds of ways we've been managing this over the last five years. And I think it - you know, for people who ask us what our overall strategy this way was four or five years ago, we would've given the same - pretty much the same answer.

Thanos Moschopoulos: Okay. Could you perhaps quantify the one-time or year end costs that were specifically in Q4?

Philip Deck: Well we had costs of about $4 million above our Q3 level and I would say the bulk of those were related to the higher licensing and sales activity during the quarter.

There's - you know, in the fourth quarter you tend to hit the more expensive parts of your comp plan. And particularly, if you exceed your targets, then you hit the really expensive parts of your comp plan.

So that tends to be there. We took - we did have some unusual costs in the fourth quarter as well and so, you know, you'll see those cost levels come down again sharply on an ongoing basis.

Thanos Moschopoulos: Great. Okay, thanks. I'll pass it along.

Operator: And we have no further questions at this time.

Philip Deck: Well we appreciate everyone's attention on the call and look forward to reporting more on our progress in the months to come.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

END