Complaint Communication #22

Script: Announcer: "Behind closed doors, Washington decides the future of our health care. With no transparency, or accountability, they're slashing Medicare and raising taxes. And only listening to the special interests. One Massachusetts leader says slow down. Get health care right. Scott Brown says protect Medicare, don't raise taxes. Listen to the people, not the lobbyists.

Call Scott Brown and tell him you agree: Washington should listen to us on health care, for a change. Americans for Job Security is responsible for the content of this advertising."

Graphic 1: Call Scott Brown 617 722-1555

Graphic 2: Scott Brown Protect Our Health Care

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to government transparency and accountability, Medicare cuts, raising taxes, and special interests related to health care — issues impacting AJS's mission. The Patient Protection and Affordable Care Act was actively being debated in late 2009 and until its passage in late March 2010, and the related issues discussed in the communication continue to be matters of public debate to this day. The communication specifically requests that the viewer contact Scott Brown to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Scott Brown as a candidate, reference an election, or exhort the public to campaign for or contribute to Mr. Brown. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to

vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on the candidate's character, qualifications, or fitness for office. Third, it focuses on healthcare, government transparency and accountability, Medicare, and taxes — all legislative and executive issues — and urges the public to adopt a particular position and contact Scott Brown with respect to the issue. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention an election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote for Mr. Brown because it focuses on a public policy issue and urges the public to contact Mr. Brown about the issue, and includes a call to action urging something other than voting for or against or contributing to Mr. Brown — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

Complaint Communication #23

Script: Person 1: "Thank you, Bill Halter. Thank you!"

Announcer:	"While millionaire Bill Halter was a highly paid director of a US company, they exported American jobs to Bangalore, India."
Person 2:	"Bangalore needs many, many jobs. Thank you, Bill Halter."
Announcer:	"With almost 65,000 Arkansans out of work, we needs jobs, too."
Person 3:	"Thank you, thank you, Bill Halter!"
Announcer:	"Bangalore says thanks, Bill Halter. Arkansas, tell Bill Halter thanks for nothing. Americans for Job Security is responsible for the content of this advertising."
Graphic:	Tell Bill Halter: Support Arkansas jobs, not jobs in India Call (501) 682-2144

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to job creation and outsourcing, issues central to AJS's mission. The issues of job creation and outsourcing were topics of debate in Arkansas and across the country at the time this communication aired. The issue of outsourcing jobs was a serious issue, and one that as Lieutenant Governor of Arkansas, Bill Halter was in a position to affect in Arkansas. The communication specifically requests that the viewer contact Bill Halter to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Lt. Governor Halter as a candidate, reference an election, or exhort the public to campaign for or contribute to his opponent. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Lt. Governor Halter's character, qualifications, or fitness for office. Third, it focuses on jobs and outsourcing — legislative and executive issues — and urges the public to adopt a particular position and contact Lt. Governor Halter with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Lt. Governor Halter because it focuses on public policy issues, urges the public to contact him about the issue, and includes a call to action urging something other than voting for or against or contributing to Lt. Governor Halter — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

Complaint Communication #24

Script: Announcer: "Arkansas families are struggling – thousands out of work. Politicians? They say one thing and do another. Bill Halter says he has never outsourced American jobs. But the facts tell a different story. When he was a highly paid corporate director, his company outsourced jobs to India. Those jobs could have boosted a community here in Arkansas. But all they boosted was Bill Halter's company's bottom line."

"Call Bill Halter. Tell him to support policies for job creation here in America. Americans for Job Security is responsible for the content of this advertising."

Graphic: Call Bill Halter at (501) 682-2144 and tell him to support policies to create jobs in America.

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). <u>See</u> <u>Buckley</u>, 424 U.S. at 44 n. 52..

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to job creation and outsourcing, issues central to AJS's mission. The issue of job creation was a topic of debate in Arkansas and across the country at the time this communication aired. The issue of outsourcing jobs was a serious issue, and one that as Lieutenant Governor of Arkansas, Bill Halter was in a position to affect economic development policy in Arkansas. The communication specifically requests that the viewer contact Bill Halter to discuss these issues. <u>See</u> MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Lt. Governor Halter as a candidate, reference an election, or exhort the public to campaign against him or contribute to his opponent. <u>See</u> 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not

14044360392

take a position on Lt. Governor Halter's character, qualifications, or fitness for office. Third, it focuses on job creation and outsourcing — legislative and executive issues — and urges the public to adopt a particular position and contact Lt. Governor Halter with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Lt. Governor Halter because it focuses on public policy issues, urges the public to contact Lt. Governor Halter about the issue, and includes a call to action urging something other than voting for or against or contributing to Lt. Governor Halter — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

<u>Complaint Communication #25 & 26</u>

Script: Announcer: "Washington is a cesspool. Filled with political insiders who think government is the solution.

"Not Ken Buck. Ken Buck stands up to the insiders in both parties. Ken Buck's conservative plan to get Colorado back to work: No to bailouts. No to debt. No to big government spending. Yes to low taxes for job creation that helps families.

"Call Ken Buck. Tell him keep fighting for smaller government and policies that support taxpayers. Americans for Job Security is responsible for the content of this advertising."

Graphic: Call Ken Buck at 970-356-4010 and tell him to keep supporting laws to lower taxes and reduce government so Colorado gets back to work.

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). <u>See</u> <u>Buckley</u>, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to government bailouts, debt, spending, and tax increases, issues central to AJS's mission. These topics relating to fiscal issues were major issues being debated in Congress in 2010 and continue to be debated to this day. The communication specifically requests that the viewer contact Ken Buck to discuss these issues. <u>See</u> MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Ken Buck as a candidate, reference an election, or exhort the public to campaign for or contribute to Mr. Buck. <u>See</u> 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election,

candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Mr. Buck's character, qualifications, or fitness for office. Third, it focuses on job creations, bailouts, and government debt and spending — all legislative and executive issues — and urges the public to adopt a particular position and contact Mr. Buck with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote for Mr. Buck because it focuses on public policy issues, urges the public to contact Mr. Buck about the issue, and includes a call to action urging something other than voting for or against or contributing to Mr. Buck — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

<u>Complaint Communication #27 & 28</u>

Script: Announcer: "Our country is at the brink. Colorado families and workers need relief. Yet, Jane Norton supported the largest tax hike in Colorado history, costing us billions.

"And Jane Norton's record on government spending? The state bureaucracy she managed grew by forty-three million dollars in just three years. Record taxes and reckless spending has cost Colorado jobs. Call Jane Norton tell her no more tax hikes and big government spending. Americans for Job Security is responsible for the content of this advertising."

Graphic: Call Jane Norton at 303-488-2010 and tell her to oppose higher taxes and reckless government spending.

14044360396

Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). <u>See</u> <u>Buckley</u>, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to taxes, government spending, and job creation, issues central to AJS's mission and that AJS continues to discuss. These topics relating to fiscal issues were major issues being debated in Colorado in 2010 — with Constitutional Amendments 60 and 61 and Proposition 101 pending as ballot initiatives and a pending state budget crunch —and continue to be debated across the country to this day. The communication specifically requests that the viewer contact Jane Norton to discuss these issues. <u>See</u> MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Jane Norton as a candidate, reference an election, or exhort the public to campaign against Ms. Norton or contribute to her opponents. <u>See</u> 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election,

candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Ms. Norton's character, qualifications, or fitness for office. Third, it focuses on government spending and tax hikes — both legislative and executive issues — and urges the public to adopt a particular position and contact Ms. Norton with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Ms. Norton because it focuses on public policy issues, urges the public to contact Ms. Norton about the issue, and includes a call to action urging something other than voting for or against or contributing to Ms. Norton — namely, to call her. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

14044350398

Complaint Communication #29

Script: Announcer: "Liberal politicians will say anything – but talk is cheap. Take Jane Norton. The federal government, it's over spending, it's over taxing, it's over regulating…

"But wait…What's the real Norton record? Norton pushed the largest tax hike in Colorado history. As a regulator, she managed a multi-million dollar surge in government spending.

"Yup, talk is cheap, but Jane Norton's real record has cost us plenty. Tell Jane Norton, no more high taxes and spending. Americans for Job Security is responsible for the content of this advertising."

Graphic: "Call Jane Norton at 303-488-2010 and tell her to oppose higher taxes and government spending."

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to taxes, government spending, and job creation, issues central to AJS's mission and that AJS continues to discuss. These topics relating to fiscal issues were major issues being debated in Colorado in 2010 — with Constitutional Amendments 60 and 61 and Proposition 101 pending as ballot initiatives and a pending budget crunch —and continue to be debated across the country to this day. The communication specifically requests that the viewer contact Jane Norton to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Jane Norton as a candidate, reference an election, or exhort the public to campaign against Ms. Norton or contribute to her opponents. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to

vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Ms. Norton's character, qualifications, or fitness for office. Third, it focuses on government spending and tax hikes — both legislative and executive issues — and urges the public to adopt a particular position and contact Ms. Norton with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Ms. Norton because it focuses on public policy issues, urges the public to contact Ms. Norton about the issue, and includes a call to action urging something other than voting for or against or contributing to Ms. Norton — namely, to call her. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

14044350400

<u>Complaint Communication #30</u>

Script: Announcer: "Reckless spending. Earmarks. Debt. Bankrupting our country. Political insiders are at the trough. Take Billy Long. He says he is against earmarks but while on the Airport Board of Directors he voted to use more than 3 million dollars in congressional earmarks for a brand new bus terminal…a terminal that now sits empty.

"The Billy Long bus terminal to nowhere. Call Billy Long and tell him, you're sick of earmarks, and bus terminals to nowhere. Americans for Job Security is responsible for the content of this advertising."

Graphic: Call Billy Long at 417-883-3387 and tell him to no earmarks!

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). <u>See</u> <u>Buckley</u>, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to government spending, earmarks, and wasteful spending, issues central to AJS's mission and that it continues to engage with to the present. The issues of government spending, debt, earmarks, and waste were topics of debate in Missouri and the U.S. Congress at the time this communication aired and continue to be debated today. The communication specifically requests that the viewer contact Billy Long to discuss the issue of earmarks. <u>See</u> MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Billy Long as a candidate, reference an election, or exhort the public to campaign for or contribute to Mr. Long's opponent. <u>See</u> 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election,

candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Mr. Long's character, qualifications, or fitness for office. Third, it focuses on government spending, debt, and earmarks — all legislative and executive issues — and urges the public to adopt a particular position and contact Mr. Long with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Mr. Long because it focuses on public policy issues, urges the public to contact him about the issue, and includes a call to action urging something other than voting for or against or contributing to Mr. Long — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

Complaint Communication #31

Script: Announcer: "The economy's in a tailspin. Unemployment on the rise. And they just continue the spending, taxing and bailouts.

"Harry Teague was 'instrumental' in passing a job-killing cap and trade bill. Teague's tax would mean higher electric rates for families, higher gas prices and cost us up to 12,000 jobs in New Mexico. Tell Harry Teague to stop his reckless spending, bailouts and job-killing taxes. Americans for Job Security is responsible for the content of this advertising."

Graphic: "Call (202) 225-2365… Tell Harry Teague to stop his reckless spending…bailouts…job killing taxes."

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to cap-and-trade, taxes, spending, and bailouts, issues that affect AJS's mission. These topics relating to fiscal issues were major issues being debated in Congress in 2010 and continue to be debated to this day. In 2010, the House had passed a cap-and-trade bill and the Senate was still considering the issue; at the time, it was unclear whether the issue would be revived in Congress. Congressman Teague was in a position to continue vote on or sponsor new cap-and-trade legislation, as well as general government fiscal issues discussed in the communication including taxes, job creation, spending, and bailouts. The communication specifically requests that the viewer contact Congressman Teague to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Harry Teague as a candidate, reference an election, or exhort the public to campaign for or contribute to Congressman Teague's political opponents. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Congressman Teague's character, qualifications, or fitness for office. Third, it focuses on cap and trade, government spending and bailouts, and taxes — all legislative and executive issues — and urges the public to adopt a particular position and contact Congressman Teague with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Congressman Teague because it focuses on public policy issues, urges the public to contact him about the issue, and includes a call to action urging something other than voting for or against or contributing to Congressman Teague — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

Compliant Communication #32

Script: Announcer: "You've heard how Joe Manchin supported the Obama stimulus…that wasted money on turtle tunnels…ant research…and cocaine for monkeys. But that's not their only waste. Their 'stimulus'…wasted money on studying the atmosphere of Neptune…hunting for dinosaur eggs in China…and even the International Accordion Festival.

"We asked for jobs. What we got was waste. Really, tell Obama and Manchin not to stimulate us any more. Americans for Job Security is responsible for the content of this advertising."

GRAPHIC: Call Joe Manchin. Tell him no more wasteful stimulus. (304) 558-2000

14044360404

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). <u>See</u> <u>Buckley</u>, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issue discussed in this advertisement pertain to wasteful spending in government stimulus projects, a central issue AJS continues to discuss to this day. The issues of government stimulus and wasteful spending were topics of debate at the time this communication aired. During his term as Governor of West Virginia, Joe Manchin had been highly supportive of President Obama's federal stimulus projects and immediately prior to this communication airing, Governor Manchin continued to defend the stimulus, expressing confidence that it would improve the job market. As Governor, Joe Manchin was in a position to stop accepting stimulus money in that state. The communication specifically requests that the viewer contact President Obama and Governor Manchin to discuss this issue. <u>See</u> MUR 5634 OGC Report # 2 at 16. The communication does not refer to Governor Manchin as a candidate, reference an election, or exhort the public to campaign for or contribute to Governor Manchin's opponent. Moreover, the communication also singles out President Obama's position on this issue during a year when the President was not facing an election. <u>See</u> 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Governor Manchin's character, qualifications, or fitness for office. Third, it focuses on government stimulus and waste — legislative and executive issues — and urges the public to adopt a particular position and contact Governor Manchin with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Governor Manchin because it focuses on public policy issues, urges the public to contact him about the issue, and includes a call to action urging something other than voting for or against or contributing to Governor Manchin — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

Complaint Communication #33

Radio Script: Announcer: "Washington politicians are on a spending spree. Bigger Government. Earmarks. Bailouts and debt have pushed our country to the brink. Pennsylvanians need relief.

"Barack Obama and Washington politicians don't get it. They want higher taxes and bigger government. Pat Toomey has a commonsense plan to get Pennsylvania back to work. Cut the red tape, so Pennsylvania small businesses are free to create jobs. Cut the spending. No more earmarks and no more bailouts. Toomey wants to end deficit spending- and return money to families and job creators. The Toomey plan - getting Pennsylvania working again.

"As a small businessman Toomey created jobs and knows what it takes to make a payroll. Pat Toomey- fiscal discipline, lower taxes and common sense economic policies. Call Pat Toomey at 484-809-7994 and tell him you support his common sense plan to get Pennsylvania back to work.

"Paid for by Americans for Job Security and not authorized by any candidate or candidate's committee. savejobs.org. Americans for Job Security is responsible for the content of this advertisement."

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to the size of the federal government, job creation, curbing bureaucracy, and fiscal issues such as taxes, spending, earmarks, and government bailouts. The issues of the size of federal government, job creation, and other government fiscal issues are central to AJS's mission and were topics of debate in Pennsylvania and the U.S. Senate at the time this communication aired and continue to be debated to this day. The communication specifically requests that the viewer contact Mr. Toomey to discuss this issue. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Pat Toomey as a candidate, reference an election, or exhort the public to campaign for or contribute to Mr. Toomey. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Mr. Toomey's character, qualifications, or fitness for office. Third, it focuses on job creation, size of government, fiscal discipline, and lower taxes — all legislative and executive issues — and urges the public to adopt a particular position and contact Mr. Toomey with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote for Mr. Toomey because it focuses on public policy issues, urges the public to contact him about the issue, and includes a call to action urging something other than voting for or contributing to Mr. Toomey — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

14044360408

ATTACHMENT 2

Americans for

Home About AJS Join AJS Issues Media Center Contact Us

"We Screwed ..."

The NLRB lawyer who sued to kill American jobs admits "We screwed up the U.S. economy." Join us in telling President Obama he should be replaced.

>> Learn More

"Unlike other business alliances also planning issue advocacy campaigns this fall, Americans for Job Security plans to spend more money, start early, stay late and shape issues rather than merely respond to an opponent." Congressional Quarterly

14044360409

Get Involved

TELL OBAMA TO STOP OUTSOURCING JOBS AND OUR NATIONAL SECURITY

TAKE ACTION NOW

Join AJS

Fill out the form to join Americans for Job Security

* First Name:

* Last Name:

* Email:

Zip:

I'm interested in:

- [ ] Participating in rallies
- [ ] Going door-to-door
- [ ] Participating in phone banking
- [ ] Submitting a letter-to-the-editor

SUBMIT

Featured Video

» View more videos sponsored by Americans for Job Security and get the embed code to add these videos to your own site!

About AJS

About Americans for Job Security

Since our founding more than ten years ago Americans for Job Security (AJS) has been at the forefront of an explosion of the marketplace of ideas. During this time AJS has put forth a pro-growth, pro-jobs message to the American people.

From the beginning our message has been a simple one: free markets and pro-paycheck public policy are fundamental to building a strong economy and creating more and better paying jobs.

We have always believe that the most effective issue advocacy message is one that drives the debate. Americans tend to only really focus on public policy issues when it is time for them to make a decision and that is why issue advocacy advertisements around elections are important. It is at that time that people are paying attention to the major issues of the day.

AJS is focused on driving the debate in the places where politicians, decision makers and the media are focused. However, in order to be considered a major issue of the day it must be in play in the marketplace of ideas. Likewise, AJS believes that it is important that we be actively discussing trade, education reform, tax reform, energy policy, and such other public policy issues long before concerned citizens are ready to focus on such weighty topics.

The two major parties, and their candidates for office, react to the marketplace of ideas, they do not drive it

Frequently Asked Questions

• What is Americans for Job Security (AJS)? AJS is the only independent, bi-partisan, pro-business issue advocacy organization in America. Established in 1997, AJS promotes issues that strengthen the American economy.

• What is issue advocacy? Issue advocacy is a means by which citizens can express their views in the marketplace of public ideas. It allows business leaders and members of the private sector community to take their message directly to the people without the filter of the press, political campaigns or parties.

• Why is AJS particularly active during campaign season? Quite frankly, campaign season is when the majority of Americans are debating and focused on public policy. In addition, since the media and public officials only focus on media markets where there are hotly contested political campaigns, we select the media markets we advertise in accordingly.

• Who are your members? Our members are businesses, business leaders and entrepreneurs from around the country. AJS does not disclose or discuss its membership further than this. Too often politicians or the media define an organization or message not by the merits of the argument, but rather by the perception of the people associated with it. We would rather the people decide on merits instead of name-calling.

• Why now? In the face of continuing efforts to influence public opinion by anti-business interests, pro-market advocates need to be heard. AJS provides the best and most effective venue for the business community to inform the public on economic issues with a pro-market, pro-paycheck message.

• What is the tax status of AJS? AJS has been organized as a 501(c)(6) business league. Under the law, this type of organization is designed to promote the "common business interests" of its members. Membership dues to the organization are not tax-deductible as charitable contributions or business expenses.

14044350411

Home About AJS Join AJS Issues Media Center Contact Us

At Americans for Job Security our core business is a pro-growth, pro-jobs message and our issue advocacy campaigns reflect that mission. According to The Annenberg Public Policy Center of the University of Pennsylvania, "Two organizations sponsored almost all of the ads mentioning taxes." and Americans for Job Security was one of them.

* First Name:
* Last Name:
Address:
City:
State:
Zip:
* Email::

I'm interested in:
- Participating in rallies
- Going door-to-door
- Participating in phone banking
- Submitting a letter-to-the-editor

SUBMIT

Issues

For more than ten years Americans for Job Security (AJS) has been at the forefront of an explosion of the marketplace of ideas. During this time AJS has put forth a pro-growth, pro-jobs message to the American people. From the beginning our message has been a simple one: free markets and pro-paycheck public policy are fundamental to building a strong economy and creating more and better paying jobs.

In the coming years issues as fundamental to economic growth as free trade and tax reform will be before congress and we pledge to continue our fight for pro-growth, pro-paycheck policies. Below is a small sampling of the issues of the day that Americans for Job Security is actively working to affect:

Reducing Taxes

AJS is fighting against taxes that are too high, too complicated and stifle the innovation and growth of businesses working to create jobs and grow the economy. In recent years we have seen tax relief that has led to economic growth and it is our goal to ensure that these pro-market, pro-paycheck policies remain in place. An active member of the Death Tax Repeal Working Group, AJS has fought hard to kill the Death Tax once and for all.

Tort Reform

Comprehensive tort reform is an important part to creating a strong job creating atmosphere within the United States. AJS supports robust tort reform proposals at the state and national level. Frivolous lawsuits stymie job creation and tie up our legal system. Small businesses are the engine of our economy and they most often become the targets of frivolous lawsuits, drowning these job creators in legal fees and distracting the court system from addressing legitimate claims. Tort reform helps consumers, small businesses and taxpayers and creates a stronger job creating atmosphere.

Free Markets & Free Trade

Through pro-market, pro-growth policies the American economy will continue to create jobs and grow. AJS advocates the eliminations of duplicative and excessive government regulations which inhibit growth and innovation and inordinately affect the countries small businesses. In addition, AJS will continue to fight to open new markets for American entrepreneurs.

Transportation

The American transportation and infrastructure system is decaying and bankrupt. Solving the nations coming transportation crisis will require innovative thinking and new ideas. AJS is dedicated to working with others to develop a plan which reduces congestion, improves roadway safety and provides an efficient manner for businesses to move products and personnel so they can continue to grow their businesses.

Education Reform

An education system which prepares students for the challenges and needs of the work place is imperative to the continued growth of our economy. AJS advocates for education policies which put money directly into classrooms, deliver results in the areas of math and science and offers accountability, affordability and accessibility to students, parents and businesses.

Health Care Reform & Modernization

The American health care system is at a tipping point and high taxation, government control and excessive regulation are not going to rescue it. AJS has fought for policies which would unleash market forces to modernize the health sector. In addition, American businesses and the health care industry in particular continue to struggle with an out of control legal system which is aiding in the rapidly increasing cost of health care. We have fought to curb these frivolous lawsuits and will continue to argue for reforms which reduce health care costs and deliver savings to consumers.

Energy

AJS is dedicated to the fight for a sustainable, affordable and comprehensive national energy policy. Through pro-growth, pro-market public policies we can help deliver affordable and reliable energy to American consumers while harnessing the work of innovative entrepreneurs to increase our use of renewable energy resources like wind, solar, clean coal, nuclear, and fuel cell power. In addition AJS believes that it is essential that we continue to explore new opportunities to rid ourselves of our dependence of foreign oil by maximizing opportunities in Alaska, Montana, Florida, Texas and the Dakotas.

April 23, 2012

Obama's Big Lottery Gamble

State governments are the lottery's real "big winners," collecting $17 billion of revenue annually from ticket sales, which are really a deceptive and hidden tax that expand the government's influence. While the ticketholder's chances of winning the recent Mega Millions jackpot were about one in 176 million, state governments are always guaranteed huge payouts. Last December, the Obama administration once again bypassed Congress, unilaterally opened the internet for gambling, and made it easier than ever for state governments to collect the lottery tax and *illegal foreign operators to further target Americans in* their homes. Now, Americans need only an internet connection and a credit card to play their state's lottery or gamblewith an illegal foreign operator.

In 1961, Congress passed the Interstate Wire Act, which prohibited certain forms of gambling. Since then, online gambling of any kind has been illegal. As lawmakers left Washington for Christmas in 2011, however, Obama's Department of Justice reversed decades of precedent without congressional consult, ruling the Wire Act is limited to sports betting and effectively legalizing internet gambling by removing the congressional prohibition.

Looking to bump tax revenues for the year and expand the size of government, statesare now moving quickly to take advantage of the new ruling. Obama's home state of Illinois became the first in the country to sell lottery tickets online – just three months after the administration's decision. Delaware, New York, Maryland, Ohio and California are preparing for an online launch as well.

Not only did the Obama administration come to this radical verdict without congressional insight, the *Department of Justice avoided a public dialogue*, leaving many concerns about internet gambling out of the national political debate.

Read the full article here

Stephen DeMaura
President, Americans for Job Security

Read more: Red State

tv spots | radio spots | news

AJS News

Obama's Big Lottery Gamble - *Red State*

The Buffett Rule is a Dangerous Distraction - *Real Clear Policy*

AJS Applauds Senate Republicans for Challenging Obama's Unconstitutional NLRB Appointments

Looking Beyond the Jobs Numbers - *RedState.com*

Congress Must Reform the Export-Import Bank to Save U.S. Jobs - *TownHall.com*

The Supreme Test - *TownHall.com*

Congress Should Reform or Eliminate the Ex-IM Bank, Not Give It More Money - *Breitbart.com*

DeMAURA: Obama unleashes his lobbyists - *The Washington Times*

Igniting The Economy - *RedState*

Administration Reversal on Military Contract Award to Foreign-Owned Embraer a "Win" For American Workers

Americans for Job Security Finds Lack of Transparency a Growing Problem in Obama Administration

AJS Applauds President's Announcement to Reform the Corporate Tax Rate

Tell Obama to Stop Outsourcing Jobs and Our National Security

A Line in the Sand - *RedState*

AJS Urges NJ Legislature to Pass S.2604

Obama's Recess Appointments to NLRB Bad for *Small Business, Good for Big Labor*

DeMaura and Segal: All Candidates Should Be Concerned About SOPA - *Roll Call*

Empowering Telecom Job Creators - *PJ Media Daily Digest*

Curbs aimed at piracy may harm technology sector - *The Roanoke Times*

NJ Legislature should move to lift regulations on telecom companies - *The Star Ledger*

Online sales tax loophole is anti-competitive, bad for business - *The Daily Caller*

NJ Senator Bob Smith's S.3082 Creates More Regulations, Threatens Jobs, Says AJS Chief

AJS Raises Concerns Over SOPA

Call Congressman Lamar Smith at 512-306-0439 - Tell Him SOPA Will Hurt Texas Jobs

Legislation in Congress threatens Austin's technology companies

AJS Launches New Campaign Targeting Job-Killing, Anti-Innovation Bill

AJS Calls on Obama to Replace NLRB Lawyer

The Job-Killing Stimulus II - *RedState*

14044360413

AJS000008

14044360414

Level the Playing Field for Main Street Businesses, Says AJS President

Rep. John Kline Shines a Light on NLRB this Week - *RedState*

Americans for Job Security to slam 'greedy union bosses' during debate - *Politico.com*

Conservative Group Assails Union Bosses as 'Job Killers' - *Newsmax.com*

Americans for Job Security to bring 'Richie the Rat' to NH - *New Hampshire Journal*

Obama's War On America's Domestic Aircraft Industry

Make America Competitive

Amazon's Argument Falls Apart

Net neutrality may threaten jobs

Obama's Net Neutrality Rules Hurt Louisiana's Job Creation

AJS Brings Inflatable Rat to National Labor Relations Board

Break the Addiction to Spending, Says AJS President

America's Future: No More Credit

A Spotlight on New Hampshire. A Spotlight on Tort Reform

A Texas Roundhouse for the Trial Lawyers

'Loser Pays,' Texas Small Business Wins

Texas Leads the Way with 'Loser Pays' Reform; Blow to Trial Lobby

AJS Applauds Senate for Passage of Tort Reform Legislation

AJS Launches New Ad Campaign to Eliminate Frivolous Lawsuits in Texas

The Obama Administration Fights To Create Jobs In Brazil

Hawker should get fighter contract

Shackled Debt and Distracted by Safety Cameras

Swiped: Banks, Merchants And Why Washington Doesn't Work For You

AJS Tells Corker to Protect Main Street, Not Wall Street in Radio Ad

AJS Tells Tester to Protect Main Street, Not Wall Street in Radio Ad

AJS Tells Capito to Stand Up for West Virginia, not Wall Street

Big Banks Have a Powerful New Opponent

AJS Supports Davis-Bacon Repeal

First on the Fix

Trust American National Security to Brazil?

Americans for Job Security targets Republicans

Pro-biz group applauds Sen. Crapo on debit-card swipe fee stance

Time to Sow the Seeds of Competition

Open Letter to the United States Senate: Support Death Tax Repeal

The Constitution Strikes Back

Hammering Halter

AJS000009

Wendelboe floats N.H. budget solution to medical malpractice fund dispute

Wyden, Gregg Provide The President With A Bipartisan Jobs Proposal

Public Citizen Drops Challenge to Dismissal Of Complaint on Americans for Job Security

8 primaries where bailout support could make a difference

Federal Lawmakers Running for Governor Face Anti-Washington Attacks

"... Barrett is being singled out because he's brought more stimulus money to the state than other South Carolina congressmen."

SC senators slam anti-Barrett ads

No need to call me congressman

Campaign-Finance Ruling Opens Door to More Political Groups

Americans for Job Security has been active with issue advocacy campaigns in over 98 media markets in 46 States and the District of Columbia. Please find below just a few of the over 85 distinct television commercials we have run.

tv spots | radio spots

AJS Media Library

- Eliminate Frivolous Lawsuits in Texas
- TARP Banks At It Again (CO)
- Big Banks Gouging Hometown Merchants (LA)
- Too Big to Fail Banks (MS)
- Swipe Fees (NC)
- Broken Debit Market (SD)
- Debit Card Fees (WV)
- Author Rick Boucher (VA-09)
- Big Spending and Bailouts
- Protect Social Security
- Providian
- Flexibility
- Taxes
- High Taxes Hurt
- Economy in Crisis
- Favors and Deals
- Montana
- Why Does AJS Care

14044360416

14044350417

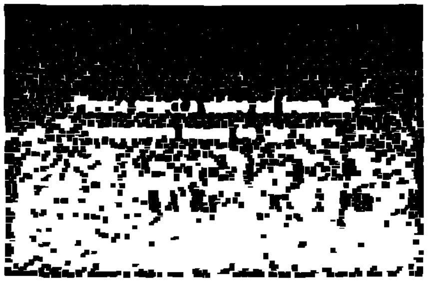
- MN - Get Serious
- NH - Taxing Trivia
- LA - Earmarks
- Thank You Senator Roger Wicker
- Alaska - Fishing Trivia
- Shaheen's Taxes Hurt

14044360418

Home | About AJS | Join AJS | Issues | Media Center | Contact Us

Americans for Job Security has been active with issue advocacy campaigns in over 98 media markets in 46 States and the District of Columbia.
Please find below just a few of the over 85 distinct television commercials we have run.

Select one



ATTACHMENT 3

Presented by the Federal Election Commission

Committees that match specified criteria:

AMERICANS FOR JOB SECURITY	
Address:	ALEXANDRIA, VA 22314
Committee Designation:	UNAUTHORIZED
Committee Type:	UNAUTHORIZED

AMERICANS FOR JOB SECURITY	
Address:	ALEXANDRIA, VA 22314
Committee Designation:	UNAUTHORIZED
Committee Type:	INDIVIDUAL OR GROUP WHO MAKES INDEPENDENT EXPENDITURES (NOT A COMMITTEE).

Total of 2 Committee(s) matched criteria

TRY A: NEW SEARCH NEW ADVANCED SEARCH
RETURN TO: FEC HOME PAGE

FEDERAL ELECTION COMMISSION

Reports Image Index for Committee ID: C30001135

AMERICANS FOR JOB SECURITY

107 SOUTH WEST STREET PMB 551
ALEXANDRIA, VA 22314

Treasurer Name:
Committee Designation: U (UNAUTHORIZED)
Committee Type: E (N/A)

14044360421

Candidate listings may appear here as a result of draft committees or independent expenditure committees registering with the FEC. If no official documents of an authorized committee appear below, the individual identified here has taken no action to become a candidate.

Click here if you have a problem viewing the images.
NOTE: Images are best viewed using the latest version of Adobe Reader.

Year 2010

Document Filed	Amended	Filed On	From Date	End Date	Pages	Display Report Page By Page	Display Full Report
ELECTIONEERING COMMUNICATION		01/15/2010	01/15/2010	01/16/2010	2	10930040714	PDF
ELECTIONEERING COMMUNICATION	AMEND	06/30/2010	01/15/2010	01/16/2010	3	10930863308	PDF
ELECTIONEERING COMMUNICATION		05/03/2010	05/03/2010	05/04/2010	3	10030321386	PDF
ELECTIONEERING COMMUNICATION		05/06/2010	05/06/2010	05/07/2010	3	10030322525	PDF
ELECTIONEERING COMMUNICATION		05/07/2010	05/06/2010	05/07/2010	2	10930676114	PDF
ELECTIONEERING COMMUNICATION	AMEND	06/30/2010	05/06/2010	05/07/2010	3	10930863250	PDF
ELECTIONEERING COMMUNICATION		06/25/2010	06/24/2010	06/25/2010	2	10930858544	PDF
ELECTIONEERING COMMUNICATION		06/30/2010	06/29/2010	06/30/2010	3	10930863356	PDF
ELECTIONEERING COMMUNICATION		07/06/2010	07/06/2010	07/07/2010	3	10930869654	PDF
ELECTIONEERING COMMUNICATION		07/14/2010	07/13/2010	07/14/2010	3	10930941615	PDF
ELECTIONEERING COMMUNICATION		07/20/2010	07/20/2010	07/21/2010	3	10991002213	PDF
ELECTIONEERING COMMUNICATION		07/26/2010	07/26/2010	07/27/2010	3	10931073407	PDF
ELECTIONEERING COMMUNICATION		07/26/2010	07/26/2010	07/27/2010	3	10931073422	PDF
ELECTIONEERING COMMUNICATION		07/26/2010	07/26/2010	07/27/2010	3	10931073458	PDF
ELECTIONEERING COMMUNICATION	AMEND	07/28/2010	07/26/2010	07/27/2010	3	10931075318	PDF
ELECTIONEERING COMMUNICATION	AMEND	07/28/2010	07/26/2010	07/27/2010	3	10931075321	PDF
ELECTIONEERING COMMUNICATION		09/03/2010	09/03/2010	09/04/2010	3	10991128553	PDF

14044360422

ELECTIONEERING COMMUNICATION		09/07/2010	09/07/2010	09/08/2010	4	10030421366	PDF
ELECTIONEERING COMMUNICATION		10/21/2010	10/20/2010	10/21/2010	3	10931695957	PDF
MISCELLANEOUS REPORT TO FEC		05/07/2010			1	10930676116	PDF
REQUEST FOR ADDITIONAL INFORMATION.		06/15/2010		06/15/2010	3	10030350853	PDF
REQUEST FOR ADDITIONAL INFORMATION		06/15/2010		06/15/2010	3	10030350856	PDF
REQUEST FOR ADDITIONAL INFORMATION		06/15/2010		06/15/2010	3	10030350859	PDF
Year 2008							
Document Filed	Amended	Filed On	From Date	End Date	Pages	Display Report Page By Page	Display Full Report
ELECTIONEERING COMMUNICATION		09/09/2008	09/05/2008	09/10/2008	4	28039830468	PDF
ELECTIONEERING COMMUNICATION		09/10/2008	09/05/2008	09/10/2008	4	28039830515	PDF
ELECTIONEERING COMMUNICATION		09/10/2008	09/05/2008	09/18/2008	4	28039830510	PDF
ELECTIONEERING COMMUNICATION		09/11/2008	09/05/2008	09/10/2008	3	28992134541	PDF
ELECTIONEERING COMMUNICATION		09/11/2008	09/05/2008	09/10/2008	3	28892134563	PDF
ELECTIONEERING COMMUBICATION		09/11/2008	09/05/2008	09/10/2008	3	28892134568	PDF
ELECTIONEERING COMMUNICATION		09/18/2008	09/16/2008	09/17/2008	3	28992159678	PDF
ELECTIONEERING COMMUNICATION		09/18/2008	09/16/2008	09/17/2008	3	28992159743	PDF
ELECTIONEERING COMMUNICATION		09/18/2008	09/16/2008	09/17/2008	3	28992159746	PDF
ELECTIONEERING COMMUBICATION		09/18/2008	09/16/2008	09/17/2008	3	28992159832	PDF
ELECTIONEERING COMMUNICATION		09/25/2008	09/24/2008	09/25/2008	3	28992267027	PDF
ELECTIONEERING COMMUNICATION		09/25/2008	09/24/2008	09/25/2008	3	28992267030	PDF
ELECTIONEERING COMMUNICATION		09/25/2008	09/24/2008	09/25/2008	3	28992267239	PDF
ELECTIONEERING COMMUNICATION		10/02/2008	10/01/2008	10/02/2008	3	29992289528	PDF
ELECTIONEERING COMMUNICATION		10/02/2008	10/01/2008	10/02/2008	3	28992289531	PDF
ELECTIONEERING COMMUNICATION		10/07/2008	10/06/2008	10/07/2008	3	28992304831	PDF
ELECTIONEERING COMMUNICATION		10/09/2008	10/08/2008	10/09/2008	3	28992378218	PDF
ELECTIONEERING COMMUNICATION		10/09/2008	10/08/2008	10/09/2008	3	28992378240	PDF
ELECTIONEERING COMMUNICATION		10/14/2008	10/13/2008	10/14/2008	3	28992451911	PDF
ELECTIONEERING COMMUBICATION		10/14/2008	10/13/2008	10/14/2008	3	28992452249	PDF
ELECTIONEERING COMMUNICATION		10/15/2008	10/15/2008	10/15/2008	3	28992576844	PDF
ELECTIONEERING COMMUNICATION		10/15/2008	10/15/2008	10/15/2008	3	28992577538	PDF
ELECTIONEERING COMMUNICATION		10/21/2008	10/20/2008	10/21/2008	3	28934005608	PDF
ELECTIONEERING COMMUNICATION		10/21/2008	10/21/2008	10/21/2008	3	28934005671	PDF
ELECTIONEERING COMMUNICATION		10/22/2008	10/21/2008	10/22/2008	3	28992903659	PDF

14044390423

ELECTIONEERING COMMUNICATION		10/22/2008	10/21/2008	10/22/2008	3	28992903667	PDF
ELECTIONEERING COMMUNICATION		10/22/2008	10/21/2008	10/22/2008	3	28992903764	PDF
ELECTIONEERING COMMUNICATION		10/22/2008	10/21/2008	10/22/2008	3	28992903785	PDF
ELECTIONEERING COMMUNICATION		10/22/2008	10/21/2008	10/22/2008	3	28892983905	PDF
ELECTIONEERING COMMUNICATION		10/22/2008	10/21/2008	10/22/2008	3	28892903924	PDF
ELECTIONEERING COMMUNICATION	AMEND	10/23/2008	10/21/2008	10/22/2008	3	28992925786	PDF
ELECTIONEERING COMMUNICATION	AMEND	10/23/2008	10/21/2008	10/22/2008	3	28992926087	PDF
ELECTIONEERING COMMUNICATION	AMEND	10/23/2008	10/21/2008	10/22/2008	3	28992926308	PDF
ELECTIONEERING COMMUNICATION		10/23/2008	10/22/2008	10/23/2008	3	28992924759	PDF
ELECTIONEERING COMMUNICATION		10/23/2008	10/22/2008	10/23/2008	3	28992925367	PDF
ELECTIONEERING COMMUNICATION		10/24/2008	10/23/2008	10/24/2008	3	28934173726	PDF
ELECTIONEERING COMMUNICATION		10/29/2008	10/28/2008	10/28/2008	3	28993084137	PDF
ELECTIONEERING COMMUNICATION		10/29/2008	10/28/2008	10/29/2008	3	28993084124	PDF
ELECTIONEERING COMMUNICATION		10/30/2008	10/29/2008	10/30/2008	3	28893088423	PDF
ELECTIONEERING COMMUNICATION		10/30/2008	10/29/2008	10/30/2008	3	28993088430	PDF
ELECTIONEERING COMMUNICATION		10/31/2008	10/30/2008	10/31/2008	3	28993090930	PDF
ELECTIONEERING COMMUNICATION		10/31/2008	10/30/2008	10/31/2008	3	28993090942	PDF
ELECTIONEERING COMMUNICATION		10/31/2008	10/30/2008	10/31/2008	3	28993090953	PDF
ELECTIONEERING COMMUNICATION		11/18/2008	11/17/2008	11/18/2008	3	28993130464	PDF
ELECTIONEERING COMMUNICATION		11/19/2008	11/18/2008	11/19/2008	3	28993131713	PDF
MISCELLANEOUS REPORT TO FEC		09/11/2008			1	28992134571	PDF

FEC HOME NEW SEARCH NEW ADVANCED SEARCH

What's New Library FOIA USA.gov Privacy Links eFiling Inspector General Subscribe

FEDERAL ELECTION COMMISSION

HOME / CAMPAIGN FINANCE REPORTS AND DATA / REPORT IMAGE SEARCH / REPORTS IMAGE INDEX

Reports Image Index for Committee ID: C90011669

FEC HOME NEW SEARCH NEW ADVANCED SEARCH

AMERICANS FOR JOB SECURITY

107 SOUTH WEST STREET PMB 551
ALEXANDRIA, VA 22314

Treasurer Name:

Committee Designation: U (UNAUTHORIZED)

Committee Type: I (INDIVIDUAL OR GROUP WHO MAKES INDEPENDENT EXPENDITURES (NOT A COMMITTEE))

Candidate listings may appear here as a result of draft committees or independent expenditure committees registering with the FEC. If no official documents of an authorized committee appear below, the individual identified here has taken no action to become a candidate.

Click here if you have a problem viewing the images.
NOTE: Images are best viewed using the latest version of Adobe Reader.

Year 2010

Document Filed	Amended	Filed On	From Date	End Date	Pages	Display Report Page By Page	Display Full Report
48 HOUR NOTICE		09/10/2010	09/09/2010	09/10/2010	4	10931245766	PDF
48 HOUR NOTICE		09/16/2010	09/14/2010	09/15/2010	3	10931275619	PDF
48 HOUR NOTICE		09/18/2010	09/16/2010	09/17/2010	3	10931294431	PDF
48 HOUR NOTICE		09/24/2010	09/23/2010	09/24/2010	3	10931347165	PDF
48 HOUR NOTICE		10/01/2010	09/29/2010	10/01/2010	5	10931358745	PDF
48 HOUR NOTICE		10/06/2010	10/04/2010	10/05/2010	4	10931371149	PDF
48 HOUR NOTICE		10/08/2010	10/08/2010	10/08/2010	2	10931377609	PDF
24 HOUR NOTICE		10/29/2010	10/29/2010	10/29/2010	2	10931774416	PDF
OCTOBER QUARTERLY		10/15/2010	07/01/2010	09/30/2010	10	10991369560	PDF
YEAR-END		01/31/2011	10/01/2010	12/31/2010	47	11930290422	PDF

FEC HOME NEW SEARCH NEW ADVANCED SEARCH

What's New Library FOIA USA.gov Privacy Links eFiling Inspector General Subscribe

Federal Election Commission, 999 E Street, NW, Washington, DC 20463 (800) 424-9530 In Washington (202) 694-1000
For the hearing impaired, TTY (202) 219-3336 Send comments and suggestions about this site to the web manager.

ATTACHMENT 4

14044360426

Complaint Communication
#22

Complaint Communication #22

Script: Announcer: "Behind closed doors, Washington decides the future of our health care. With no transparency, or accountability, they're slashing Medicare and raising taxes. And only listening to the special interests. One Massachusetts leader says slow down. Get health care right. Scott Brown says protect Medicare, don't raise taxes. Listen to the people, not the lobbyists.

Call Scott Brown and tell him you agree: Washington should listen to us on health care, for a change. Americans for Job Security is responsible for the content of this advertising."

14044360427

Graphic 1: Call Scott Brown 617 722-1555

Graphic 2: Scott Brown Protect Our Health Care

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to government transparency and accountability, Medicare cuts, raising taxes, and special interests related to health care — issues impacting AJS's mission. The Patient Protection and Affordable Care Act was actively being debated in late 2009 and until its passage in late March 2010, and the related issues discussed in the communication continue to be matters of public debate to this day. The communication specifically requests that the viewer contact Scott Brown to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Scott Brown as a candidate, reference an election, or exhort the public to campaign for or contribute to Mr. Brown. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to

vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on the candidate's character, qualifications, or fitness for office. Third, it focuses on healthcare, government transparency and accountability, Medicare, and taxes — all legislative and executive issues — and urges the public to adopt a particular position and contact Scott Brown with respect to the issue. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention an election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote for Mr. Brown because it focuses on a public policy issue and urges the public to contact Mr. Brown about the issue, and includes a call to action urging something other than voting for or against or contributing to Mr. Brown — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

The Washington Times

Close Print

Originally published 05:45 a.m., January 5, 2010, updated 11:27 a.m., January 5, 2010

EDITORIAL: Hiding health bills behind closed doors

THE WASHINGTON TIMES

It may be a new year, but congressional Democrats are planning the same old sorts of sleazy tactics in their bid to take over America's health care system. Congressional Republicans, especially in the Senate, should not let them get away with it. Transparency and ethics should be Republican rallying cries, and obstruction on those grounds should be a point of pride.

By now it's almost trite to complain that President Obama repeatedly has broken his campaign pledge to "broadcast [health care] negotiations on C-SPAN so that the American people can see what the choices are." That doesn't make the complaint invalid. For legislation that could so profoundly and personally affect the daily lives of every American, Congress and the White House should be more transparent and more accessible than ever before. Instead, the process has been secretive and sordid throughout.

The House passed its version of the bill on a Saturday night. The Senate held its key procedural vote at 1 in the morning, and then provided a lump of coal in our stockings by forcing full passage of its bill on Christmas Eve. The House leadership banned consideration of all but one amendment not offered by leadership itself - forbidding debate on more than 150 of them - then provided just 24 hours for members to study the bill's final text. The Senate leadership inserted so many tawdry last-minute items that analysts are still finding jokers in the deck 11 days later.

All these shenanigans have driven approval for the government health care bills even lower in public polls than the strong majorities that already opposed them a month ago. Yet that hasn't fazed congressional leaders. Now comes word from multiple sources that not only will Congress refuse to televise the usual Conference Committee to reconcile the two chambers' versions of the bill, but it won't allow a formal conference at all. Instead, a chosen few negotiators will concoct the final version out of sight, without formal rules governing the process and without a single Republican at the table.

TWT RELATED STORIES:

- Democrats look to skip formality on health bills
- Making progress on pork busting
- Obama returns to terror scrutiny
- PRUDEN: A little religion for the messiah

Democratic Rep. Henry Waxman of California, chairman of the House Energy and Commerce Committee, candidly told a Jan. 3 home-state Democratic gathering that the sleight-of-hand is intended to enable his colleagues to avoid any more tough votes until the one on final passage. David Dayen of the liberal Web site Firedoglake reported from the meeting that, "this will not be a traditional conference committee, Waxman said, because the motions to select and instruct conferees in the Senate 'would need 60 votes [in the Senate] all over again.'"

(Corrected paragraph:) Back in October, Rep. Vern Buchanan, Florida Republican, offered this simple resolution: "Resolved, that it is the sense of the House of Representatives that any conference committee or other meetings held to determine the final content of sweeping national health care legislation be held in full public view and not behind closed doors."

If congressional leaders do not abide this simple request, Republicans should bring the whole Senate to a halt. Senate rules provide for so many procedural obstacles, if a determined minority wants to exercise them, that the entire body could be tied up in knots for weeks on end. In the name of open and accountable government, that's what senators should do if the public interest continues to be trampled.

The Washington Post

Small Group Now Leads Closed Negotiations on Health-Care Bill

By Perry Bacon Jr.
Washington Post Staff Writer
Sunday, October 18, 2009

14044360431

Three months before he was elected president, Barack Obama vowed not only to reform health care but also to pass the legislation in an unprecedented way.

"I'm going to have all the negotiations around a big table," he said at an appearance in Chester, Va., repeating an assertion he made many times. He said the discussions would be "televised on C-SPAN, so that people can see who is making arguments on behalf of their constituents and who are making arguments on behalf of the drug companies or the insurance companies."

But now, as a Senate vote on health-care legislation nears, those negotiations are occurring in a setting that is anything but revolutionary in Washington: Three senators are working on the bill behind closed doors.

Senate Majority Leader Harry M. Reid (D-Nev.) sits at the head of a wooden table at his office as he and Sens. Christopher J. Dodd (D-Conn.) and Max Baucus (D-Mont.) work to merge two competing versions of health-care legislation into one bill. The three men will be joined by top aides as well as by members of President Obama's health-care team, led by White House Chief of Staff Rahm Emanuel. The sessions started on Wednesday and could be completed this week.

The group will make such key decisions as whether to include a government-run insurance plan designed to compete with private insurance companies. The bill passed in July by the Senate Health, Education, Labor and Pensions Committee, which Dodd led while Sen. Edward M. Kennedy (D-Mass.) was ailing, included such a provision, but the legislation passed last week by Baucus's Finance Committee did not.

The bills also differ on how much Americans who do not buy insurance should be fined as the government seeks to get everyone covered.

In the sessions, Dodd in effect represents advocates of the government-insurance option and Baucus represents those less committed to that proposal. The tie-breaking votes are likely to be Reid and, on Obama's behalf, Emanuel. Obama and Reid have said they personally back the government-insurance option but have not ruled out supporting a bill that lacks such a provision.

Although much of the writing of legislation happens in closed-door meetings, congressional Republicans have sharply criticized the ongoing process.

"This bill is being written in the dark of night," said House Minority Leader John A. Boehner (R-Ohio),

AJS000026

adding that "the president ought to keep his promise to the American people and open this process up."

"It's ironic that Congressman Boehner would be complaining since he has refused every step of the way to participate in the effort to reform health insurance," Reid Cherlin, a White House spokesman, said in a statement. "The House and Senate have held scores of hearings on health insurance reform -- as Congressman Boehner well knows -- and at the White House we've held an unprecedented series of webcast meetings with key health care stakeholders to gather their input in a public forum."

Baucus played down the private nature of the group's meetings. "In a real sense, all senators who want health-care reform are in the room because we'll be talking to all of them, they'll be talking to us," he said.

The three senators and Emanuel won't be the only ones playing a role in shaping the legislation. Every member of the Senate will have a chance to offer amendments to the bill the three senators write. And even though the final legislation is expected to resemble more closely the version in the Senate, where final passage would require support from more-conservative Democrats, House Democrats have been meeting for weeks on their version of the bill.

The House Democratic leadership and several key chairmen meet daily, and are regularly briefing smaller groups of lawmakers. As in the Senate, House moderates and liberals remain divided over the government-insurance option, which Speaker Nancy Pelosi (D-Calif.) strongly favors.

The House meetings are also not televised on C-SPAN or open to the public. But unlike the Senate negotiations, the House discussions tend to be open to more lawmakers.

"We have meetings and more meetings and gripe sessions," said Anthony Weiner (D-N.Y.). "This process has been almost open to death."

But after weeks of Senate Finance Committee public hearings, the Senate negotiations are now an invitation-only affair in Reid's office. The majority leader is unlikely to expand his group, even as some senators unhappy with parts of the legislation, such as John D. Rockefeller IV (D-W.Va.), have asked to be in the room.

Instead, lawmakers try to influence the three senators however they can. Sen. Charles E. Schumer (D-N.Y.), a close Reid ally, annoyed him recently by publicly pressing the majority leader to include a government-run public insurance option. Moderate Democrats are privately prodding Baucus to defend the approach in the bill passed by his committee.

In addition to being well-versed in health-care policy, some of the negotiators gathering in Reid's office are quite health-conscious. Baucus has run 50-mile "ultramarathons" and wants to complete a 100-mile race. Reid and Emanuel do yoga, and Dodd turned the recent announcement of his prostate cancer diagnosis into a virtual public health campaign.

While fellow lawmakers seek to influence them, Dodd and Reid are dogged by low approval ratings in their home states and are facing reelection next year. As they emerged from a health-care session last week, Dodd and Reid touted the number of uninsured in their home states who would benefit from the legislation.

"All of my polling numbers are good," Reid said, even as polls show him trailing several potential challengers. On Friday, he took the highly unusual step of starting to run campaign ads more than a

14044560433

year before the election.

Reid, in particular, faces a balancing act. As majority leader, he is tasked with shepherding the bill and ensuring that it has the support of conservative Democrats necessary for passage. But liberal activists who could raise money and help him win next year, including the group MoveOn.org, are demanding he aggressively back the public option.

Reid, like the other members of the group, seems prepared to disappoint some people to get the broader bill finished.

"Neither I nor any other senator has the luxury of passing a perfect bill -- I wish we could -- that conforms exactly to his or her beliefs," he said. "But we must act."

View all comments that have been posted about this article.

Post a Comment

View all comments that have been posted about this article.

Comments that include profanity or personal attacks or other inappropriate comments or material will be removed from the site. Additionally, entries that are unsigned or contain "signatures" by someone other than the actual author will be removed. Finally, we will take steps to block users who violate any of our posting standards, terms of use or privacy policies or any other policies governing this site. Please review the full rules governing commentaries and discussions. You are fully responsible for the content that you post.

AJS000028

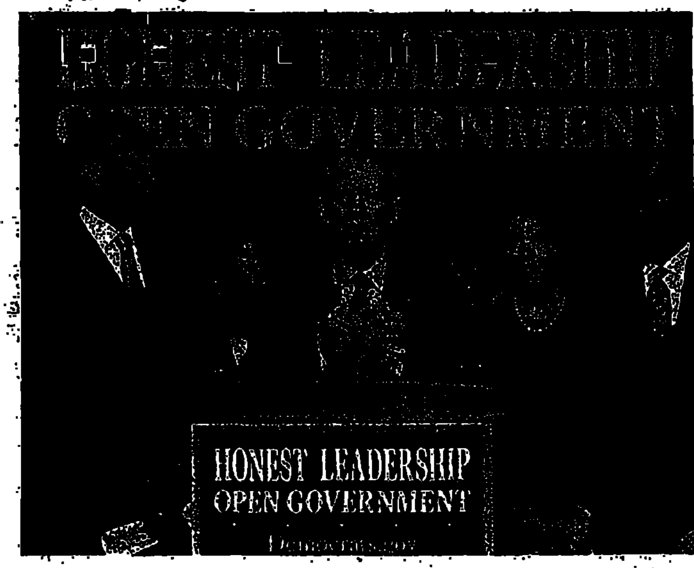
14044360434

Top of the Ticket

POLITICS AND COMMENTARY, COAST TO COAST, FROM THE LOS ANGELES TIMES

Democrats Reid, Pelosi ponder crafting Obama's final healthcare bill behind closed doors

January 5, 2010 | 1:25 am



Since it's basically one-party rule in Washington nowadays, Democratic leaders including Harry Reid and Nancy Pelosi are seriously considering pushing President Obama's beloved healthcare legislation through Congress without the normal conference committee work involving both party's members from both houses.

Such a select conference committee is normally charged with reconciling differing House and Senate bills on the same issue before final votes in each house on the compromise version.

But since American voters collectively wanted so much change so badly in 2008, they handed over the White House, House of Representatives and Senate to Democrats with such lopsided majorities that, much as in Chicago, the ruling party doesn't really need any Republican help driving the differing bills through a blender to produce a final version, possibly by early February.

Congressional Democrats will meet with Obama at the White House this evening to discuss the....

...strategy, some in person, some via videoconferencing. House Democrats will caucus Thursday to discuss a final decision on strategy for when they reconvene next week.

Stay connected:

RSS facebook

About the Bloggers

Andrew Malcolm
Johanna Neuman

Recent Posts

Obama faces leadership test on Haiti | *January 14, 2010, 8:44 am* »

Joe Biden update: He meets on transparency today. But the meeting is closed | *January 14, 2010, 2:32 am* »

More desert poll tremors for Nevada's Harry Reid | *January 13, 2010, 5:48 pm* »

No joke -- 'African Americans for Senator Harry Reid' to meet this week | *January 13, 2010, 12:51 pm* »

Haiti devastation could speed immigration debate | *January 13, 2010, 10:08 am* »

Recent Comments

RE: On her new Twitter page, Sarah Palin offers a more personal look | comment by faceswithin

RE: Afghan President Karzai hopes Obama will "settle down," show "better judgment" | comment by notebook computers

RE: Schwarzenegger now opposes Obama's

AJS000029

As our colleague James Oliphant reports, such a beeline has some advantages for Democrats. While they don't need Republican help, they also don't need the GOP's avowed obstructionism. Simply choosing conference committee members offers numerous opportunities for long procedural delays in a democracy.

And the president has stressed healthcare urgency for months; remember, he wanted all this done by the first week of August last year because he saw poll support dropping and wanted to avoid entanglement with the 2010 elections.

But here we are in 2010. And there are the elections just 305 days away.

A new Rasmussen Reports poll out Monday finds that a majority of Americans believe the new plans will hurt healthcare quality, 59% figure it will actually increase healthcare costs, 57% oppose the bills' intent to cut Medicare benefits by hundreds of billions of dollars and, for some reason, 78% of Americans suspect the Obama administration cost estimates are way under the actual expenses.

Democrats simply ramming the immense measure through, however, might look heavy-handed to some moderate Americans, while having one party's leadership secretly craft the final bill behind closed doors fits more with a policy of official opacity than oft-promised transparency.

With no Republican crossing the aisle in favor of Obama's healthcare -- indeed, one Democrat House member changed parties over the bill last month -- the partisan lines are clearly drawn for the opening of the midterm election campaigns.

With no political cover offered by defecting Republicans, Democrats Reid and Pelosi are counting on some kind of healthcare legislation, even without a government plan, bringing out party loyalists on Nov. 2.

This despite the experience last November when with Obama's name on no ballot, the loyalists stayed home sufficiently to deliver to Republicans the governors' offices in Virginia and New Jersey.

And despite some very vocal intra-party opposition gathering behind snubbed former party chairman Howard Dean, himself a doctor, and influential left websites like firedoglake.com.

The GOP, on the other hand, will seek to tie every Democrat candidate everywhere to the hopey-changey guy in the White House, much as Democrats successfully associated many Republicans with the unpopular presidency of George W. Bush in 2008. The GOP might even mention the stubbornly high unemployment rate despite all of Joe Biden's revitalization talking.

Republicans are counting on the sheer scale of the healthcare bill, its immediate costs, delayed benefits, accompanying Medicare cuts and new taxes to emerge in coming months and drive to their side not only the GOP base of worried fiscal conservatives but crucial independents who thought they were voting for a moderate Obama in 2008.

If that happens, 2010's change to believe in would be over on the right, not the left.

-- Andrew Malcolm

For Twitter alerts on each new Ticket item, Democrats should click here. Republicans should click over here on the right side. They both go to the same place, but everyone can feel really loyal. Or follow us @latimestot. Or join us over here on The Ticket's new Facebook FAN page.

Photos: Associated Press

More in: 2010, Campaigning, Chicago politics, Democratic Politics, Economy, Health Care Policy, House of Representatives, House Speaker Nancy Pelosi, Political History, President Obama, Senate

Permalink

Comments (31)

ShareThis

Share 35

RELATED STORIES sphere

From the L.A. Times

- Democrats' retirements point to shifting political landscape

healthcare, urges delegation "to get in there and fight" | comment by Seen it all before

RE: More desert poll tremors for Nevada's Harry Reid | comment by m lyster

RE: More desert poll tremors for Nevada's Harry Reid | comment by Michael

RE: First, Obama gets a Nobel Peace Prize for nothing; now, a tae kwon do black belt after zero kicks | comment by SP

Categories

2010 2012 abortion acorn ads advertising afghanistan aides aids alaska arnold schwarzenegger autos banks bernard madoff bipartisan blagojevich blogging books budget bundlor cabinet-new california california elections campaign attacks campaign gaffes campaigning canada cancer candidate character candidate foibles candidate spouses caucus celebrities cellphones census chicago politics china civil rights cold weather condoleezza rice congress conservative groups corruption current affairs debates delegates democratic national convention democratic politics diplomacy diversity dnc dogs domestic policy dreams drugs illegal economy education electoral college electoral map emails endorsements energy environment ethnic politics facebook faith and politics family fashion film first 100 days first lady first lady michelle obama florida food and drink foreign policy forums fundraising gaffes gambling games gay marriage gender politics georgia getting around gimmicks governors greenhouse gas guest blogger guns health health care policy hillary clinton hispanics hollywood house of representatives house speaker nancy pelosi housing crisis humor hurricane katrina illinois politics illness immigration immigration debate impeachment inauguration income taxes independent candidates independents indiana iowa iran iraq war jobs john mccain judge sotomayor kennedy kentucky kids and families l.a. watches labor issues legislation liberal groups live blog lobbying marijuana media mexico michigan military mitt romney money mormonism music myspace nasa nevada nevada caucus new hampshire news conference newspapers north carolina obama's speech ohio oregon parties and balls party convention pennsylvania pentagon personal habits pets photo gallery political history polls poverty president bush president clinton president obama presidential campaign primary calendar public opinion race and ethnicity radio ralph nader religion religious conservatives republican national convention republican politics rnc ron paul ronald reagan roundup sarah palin satire scandal science secretary of state securities & exchange commission security senate senate races sept. 11 silliness social conservatives south carolina south dakota speeches sports state department stem cell research straw poll stump mistakes sunday talk shows superdelegates supreme court surrogate speakers taliban taxes technology television terrorism texas the world watches third parties torture town hall trade issues trade policy transcript transition transition team travel twitter unions veterans vice president vice president biden vice president cheney video virginia waffling about running for president wall street war web/tech weblogs weekly remarks weird west virginia white house wisconsin wyoming youth vote youtube

AJS000030

msnbc.com

Medicare cuts stay in Senate's health care bill

AARP, the seniors' lobby, threw its weight behind the Democrats

The Associated Press
updated 7:49 p.m. ET,Thurs., Dec. 3, 2009

WASHINGTON - Unflinching on a critical first test, Senate Democrats closed ranks Thursday behind $480 billion in politically risky Medicare cuts at the heart of health care legislation, thwarting a Republican attempt to doom President Barack Obama's sweeping overhaul.

The bid by the bill's critics to reverse cuts to the popular Medicare program failed on a vote of 58-42, drawing the support of two Democratic defectors. Approval would have stripped out money needed to pay for expanding coverage to tens of millions of uninsured Americans.

The broader legislation aims to extend health coverage to 31 million who now lack it, while barring insurance industry practices such as denying coverage on the basis of pre-existing medical conditions. Though the overhaul is estimated to cost about $1 trillion over a decade, the Congressional Budget Office has said it would cut federal deficits by $130 billion over that period, and probably reduce them further in the 10 years beyond that.

"Our bill does nothing to reduce guaranteed Medicare benefits," said Sen. Max Baucus, D-Mont., as several fellow Democrats accused Republican critics of making false claims of potential harm during three days of debate.

The AARP supported the 10-year package of cuts in projected spending, giving Democrats political cover for their decision to pare back subsidies to private Medicare plans as well as payments to hospitals, hospices, home health agencies and other providers.

Republicans disagreed vigorously. "Medicare is already in trouble. The program needs to be fixed, not raided to create another new government program," said the party's leader, Sen. Mitch McConnell of Kentucky.

The Medicare vote came not long after the Senate backed a guarantee for all insured women age 40 and older to receive mammograms with no out-of-pocket costs. The breast cancer screening test would be included in an array of preventive measures that insurance plans would be required to cover. The proposal cleared on a near party-line vote of 61-39, one more than the 60 needed for passage. It essentially wiped out a federal advisory committee recommendation to defer routine mammograms until women reach the age of 50.

The day's votes were the first since the Senate's health

msnbc.com

care debate began on Monday, and demonstrated the ability of Democrats to move ahead in the face of implacable Republican opposition.

At the same time, Democrats worked in private meetings to settle controversies within the party that are still standing in the way of the bill's passage. The most contentious of these involves proposals for the government to sell insurance in competition with private companies, an approach supported by liberals but opposed by most Democratic moderates and conservatives.

"Our caucus is now in the process of negotiating with ourselves because we need all 60 of us to get this done," said Sen. Mary Landrieu, D-La., after one closed-door meeting. Senate procedures require 60 votes to overcome Republican delaying tactics designed to kill the bill.

Majority Leader Harry Reid, D-Nev., said he expected all such issues to be worked out soon, but he did not specify precisely when.

For the time being, that left the two parties free to engage in an intensely political debate on health care, an issue that is certain to play a role in next year's midterm elections.

Unwilling to allow Republican charges on Medicare to go unanswered, Democrats responded with an alternative that stated no guaranteed benefits would be cut from the program and its finances would be strengthened.

The lead proponent of that provision was Sen. Michael Bennet of Colorado, who was appointed to his seat earlier in the year and faces a difficult campaign in 2010. "This is a message amendment," his office informed fellow Democrats in an e-mail unintended for publication, indicating its purpose was political. "The Senate bill already does these things and this amendment makes these facts absolutely clear and succinct." It passed 100-0.

Sen. John McCain of Arizona, Obama's Republican opponent in last year's presidential race, laid bare the political nature of the debate by making a recording to be telephoned automatically to thousands of voters in states represented by Democrats, urging the deletion of the Medicare cuts. The calls were paid for by the National Republican Senatorial Committee and took aim at Bennet as well as Sens. Blanche Lincoln of Arkansas, who is seeking a new term next year, and Ben Nelson of Nebraska.

In the end, Nelson and Sen. Jim Webb of Virginia were the only Democrats to support McCain's proposal.

On the other side, Republicans would not allow the Democrats to go unchallenged on women's health with a proposal long backed by Sen. Barbara Mikulski requiring the government to develop a list of tests to be covered at no additional cost to the patient.

On Wednesday, Sen. David Vitter, R-La., made it explicit that mammograms would be covered for women at age 40.

More broadly, Sen. Lisa Murkowski, R-Alaska, backed an alternative that gave GOP senators opposed to the Democratic proposal a measure they could support. It u rged the insurance industry to consult with medical experts in deciding what preventive tests to provide.

msnbc.com

But it provided no government guarantee that any would be required, and did not rule out co-pays for patients undergoing the procedures.

It failed on a vote of 59-41 with Nelson siding with the Republicans.

Political philosophy played a hidden role in the struggle over women's health. Republicans have accused Democrats for months of supporting a federal takeover of health care. Murkowski quietly shelved an earlier draft of her amendment that would have given the government authority to require additional preventive tests and raised the cost of the bill by $30 billion over a decade. One Republican said conservatives objected, forcing the switch.

Overall, the $1 trillion legislation would require most Americans to purchase insurance and provide federal subsidies to lower and middle income individuals and families to defray the cost. Businesses would not be required to provide coverage to their employees, but large firms would face a penalty if they did not and if any of their workers received federal subsidies.

Consumers would be allowed to shop for insurance in a new marketplace in which companies would compete for business by selling policies that provide benefits according to standards established by the federal government.

1404460438

Medicare Cuts Stay In Health Care Bill

December 3, 2009 text size A A A

The Senate has voted to keep significant Medicare cuts in its health care overhaul bill despite polls showing seniors are concerned about their benefits.

Senators voted 58-42 to reject an amendment by Republican Sen. John McCain of Arizona that would have stripped more than $400 billion in Medicare cuts from the health care bill. The measure would have sent the bill back to the Senate Finance Committee for a redo.

Republicans said the cuts to health insurance plans and medical providers would mean seniors in the popular Medicare Advantage program will lose some benefits. Democrats said no guaranteed benefits will be lost, and the cuts will help keep Medicare solvent. AARP threw its support to the Democrats.

---

comments

Discussions for this story are now closed. Please see the Community FAQ for more information.

Recent First

Tell Me (WhatToThink) wrote:
I'd like to propose a new definition of rich: Anyone who makes more money than I do
Sunday, December 06, 2009 5:58:15 PM
Recommend (1) Report abuse

James caudill (cmg) wrote:
I think that if the gov,would put a stop to the war that they could spend that money to help the american people all they have to do is bring all the army people home .And put a stop to all the outside countrys from coming over here . Only the country's that is the un can come over and the other country can stay out an I think that if they would listen to the people of the usa they would do better. They keep raising taxes on us so they can do what they want an the people don't have a say .They took the raise from the people on SS an that hurt these people an they think the people can live from year to year with the cost at the groc,store going yp every day the cost is up a lot from last year it cost alot to live now . If all the sentors and govnors had to live like the most of us in the usa . They would not have thein $500.00 suits like they wiar they would be in jeans an tee shirts . I think they need to try it for one year an see if they can live like us .That is on a fix income . And take the rest of their money an give itn the people for one year .I think that they just think of them sells an all they want is to keep the poor so they can stay rich thank 's for reading this
Friday, December 04, 2009 2:12:51 PM
Recommend (1) Report abuse

Stephen Williams (willie234) wrote:
I live in Winter Haven Florida and I survive on'or attempt to'$674.00 a month,I recently recieived a notice that my food stamp allowance would be cut by %20.00 or more,and that there will be no increase in Social Security for 2010.I have a life threating disease and need serious dental work,and that in all of Polk County,there isnt one dentist that accepts medicaid patients! my PCP is unresponsive to my pleas for treatment to have surgery,I cannot change PCP,s,because I would have to travel 60 miles in any direction.to find one and the health care plan is wanting to reduce the amount of payments they recieve now to see those who need it most will surely deprive Seniors and those with chronic illness,s that see no future and very little hope of a better day,I say this mainly for the dependents of the Military for which I am one.that not only have given the lives of their loved ones also who gave up so much in life to make it possible for so many to remain Free & prosper.
Friday, December 04, 2009 11:45:58 AM
Recommend (4) Report abuse

C. Rock (JinglesSLC) wrote:
brenda: "Someone keeps voting for the ones who are not listening."
~But isn't that like a prerequisite to being a politician? :)
Friday, December 04, 2009 10:39:21 AM
Recommend (0) Report abuse

Beth Balls (BEasy) wrote:
I feel that if we make sacrifices with Medicare, perhaps our younger generation will be able to reproduce in a more affordable manner. Medicare has been one of the best forms of care for our elderly and even in some cases an emergency use of sorts. In order to further a generation we must understand that we need children to take care of our elderly, so if that means cutting certain things that you'll have to pay for out of pocket than trust me it's worth it. Perhaps not to the individual at hand but as a whole society it will work for the betterment.
Thank you,
BB

14044360436

AJS000034

CNNMoney.com

PRINTTHIS
Powered by Clickability

Click to Print

SAVE THIS | EMAIL THIS | Close

14044360440

Obama: We can afford health care reform

President proposed $313 billion in cuts to Medicare and Medicaid to help pay for $1 trillion health care reforms.

June 13, 2009: 7:40 AM ET

WASHINGTON (Reuters) -- President Barack Obama Saturday proposed an additional $313 billion in cuts to Medicare, Medicaid and other programs to pay for health care reforms expected to cost about $1 trillion over the next decade.

"I know some question whether we can afford to act this year. But the unmistakable truth is that it would be irresponsible to not act," Obama said in an advance text of his weekly radio address.

Obama wants a health care reform bill on his desk by October, but faces opposition from Republicans who oppose creation of a government-run insurance plan to compete with private insurers.

Many of his fellow Democrats are wary of making deep cuts to Medicare and Medicaid, the U.S. health care programs for seniors and poor people, to pay for reforms.

With the cost of U.S. health care continuing to rise rapidly, Obama argued the country could not afford to wait another year for sweeping changes.

But he acknowledged the ambitious plan would increase government costs in the short run.

To address those concerns, Obama has pledged to come up with enough spending cuts and new revenue to pay for reforms.

"So today, I am announcing an additional $313 billion in savings that will rein in unnecessary spending, and increase efficiency and the quality of care -- savings that will ensure that we have nearly $950 billion set aside to offset the cost of health care reform over the next ten years," Obama said.

About $110 billion of the new cuts would come from reducing scheduled increases in Medicare payments. That would encourage health care providers to increase productivity, White House budget director Peter Orszag told reporters.

AJS000035

Obama also proposed cutting payments to hospitals to treat uninsured patients by $106 billion on the assumption those ranks would decline as health care reforms phase in.

An additional $75 billion would come from "better pricing of Medicare drugs," Orszag said, adding the White House was in talks with stakeholders over the best way to do that.

The remaining $22 billion in proposed cuts would come from smaller reforms, such as adjusting payment rates for physician imaging services and cutting waste, fraud and abuse.

The new cuts are in addition to a $635 billion "down payment" on health care reform that Obama outlined in his budget to Congress earlier this year.

About half of that came from cuts in Medicare and Medicaid and the rest from revenue proposals such as cutting tax deductions for families that make over $250,000 a year.

Altogether, the Obama administration is now asking Congress to trim spending on Medicare and Medicaid by more than $600 billion over the next decade, which is more than some Democrats are willing to swallow.

House Ways and Means Committee Chairman Charles Rangel told reporters after a closed-door meeting with fellow Democrats on the panel that the committee would include about $400 billion in Medicare and Medicaid savings in the health care overhaul legislation being drafted.

"We don't think we can do all the things he (Obama) is recommending. ... We think his 600 (billion) is our 400," Rangel told reporters. ■

1404436041

Find this article at:
http://money.cnn.com/2009/06/13/news/economy/Obama_health_Care.reut/index.htm

Click to Print | SAVE THIS | EMAIL THIS | Close

☐ Check the box to include the list of links referenced in the article.

The Washington Post

Report: Bill would reduce senior care

Medicare cuts approved by House may affect access to providers

By Lori Montgomery
Washington Post Staff Writer
Sunday, November 15, 2009

14044360442

A plan to slash more than $500 billion from future Medicare spending -- one of the biggest sources of funding for President Obama's proposed overhaul of the nation's health-care system -- would sharply reduce benefits for some senior citizens and could jeopardize access to care for millions of others, according to a government evaluation released Saturday.

The report, requested by House Republicans, found that Medicare cuts contained in the health package approved by the House on Nov. 7 are likely to prove so costly to hospitals and nursing homes that they could stop taking Medicare altogether.

Congress could intervene to avoid such an outcome, but "so doing would likely result in significantly smaller actual savings" than is currently projected, according to the analysis by the chief actuary for the agency that administers Medicare and Medicaid. That would wipe out a big chunk of the financing for the health-care reform package, which is projected to cost $1.05 trillion over the next decade.

More generally, the report questions whether the country's network of doctors and hospitals would be able to cope with the effects of a reform package expected to add more than 30 million people to the ranks of the insured, many of them through Medicaid, the public health program for the poor.

In the face of greatly increased demand for services, providers are likely to charge higher fees or take patients with better-paying private insurance over Medicaid recipients, "exacerbating existing access problems" in that program, according to the report from Richard S. Foster of the Centers for Medicare and Medicaid Services.

Though the report does not attempt to quantify that impact, Foster writes: "It is reasonable to expect that a significant portion of the increased demand for Medicaid would not be realized."

The report offers the clearest and most authoritative assessment to date of the effect that Democratic health reform proposals would have on Medicare and Medicaid, the nation's largest public health programs. It analyzes the House bill, but the Senate is also expected to rely on hundreds of billions of dollars in Medicare cuts to finance the package that Majority Leader Harry M. Reid (D-Nev.) hopes to take to the floor this week. Like the House, the Senate is expected to propose adding millions of people to Medicaid.

The Centers for Medicare and Medicaid Services administers the two health-care programs. Foster's office acts as an independent technical adviser, serving both the administration and Congress. In that sense, it is similar to the nonpartisan Congressional Budget Office, which also has questioned the sustainability of proposed Medicare cuts.

In its most recent analysis of the House bill, the CBO noted that Medicare spending per beneficiary would have to grow at roughly half the rate it has over the past two decades to meet the measure's savings targets, a dramatic reduction that many budget and health policy experts consider unrealistic.

"This report confirms what virtually every independent expert has been saying: [House] Speaker [Nancy] Pelosi's health-care bill will increase costs, not decrease them," said Rep. Dave Camp (Mich.), the senior Republican on the House Ways and Means Committee. "This is a stark warning to every Republican, Democrat and independent worried about the financial future of this nation."

Democrats focused Saturday on the positive aspects of the report, noting that Foster concludes that overall national spending on health care would increase by a little more than 1 percent over the next decade, even though millions of additional people would gain insurance. Out-of-pocket spending would decline more than $200 billion by 2019, with the government picking up much of that. The Medicare savings, if they materialized, would extend the life of that program by five years, meaning it would not begin to require cash infusions until 2022.

"The president has made it clear that health insurance reform will protect and strengthen Medicare," said White House spokeswoman Linda Douglass. "And he has also made clear that no guaranteed Medicare benefits will be cut."

Republicans argued that the report forecasts an increase in total health-care spending of more than $289 billion.

View all comments that have been posted about this article.

Post a Comment

View all comments that have been posted about this article.

You must be logged in to leave a comment. Login | Register

Submit

WebMemo

Published by The Heritage Foundation

No. 2706
November 20, 2009

Taxes Proposed to Pay for Health Care Reform

Curtis S. Dubay

The U.S. Senate recently released its long-awaited proposal for a government-run hostile takeover of the entire U.S. health care system. Predictably, it includes a barrage of higher taxes to pay for the bill's immense price tag.

An important addition to the list of tax hikes included in the Senate bill was an increase in the Medicare portion of the payroll tax. The current Medicare tax is 2.9 percent, paid half each by workers and employers. The proposal in the Senate bill raises this to 3.4 percent for workers making more than $200,000 a year ($250,000 for joint filers).

Under a long-standing principle, taxpayers pay the Medicare tax during their working years and receive coverage for hospitalization during their retirement. Using the additional payroll tax revenue from raising the rate to pay for a new, separate entitlement program would break the long-established tie between the tax and the benefits taxpayers receive for paying it.

Using new revenue from the Medicare tax to fund health care reform would be as illogical as raising the federal gas tax, which funds highway construction and maintenance, to pay for a new welfare entitlement.

Higher Taxes Than France. Higher Medicare taxes would push the top average marginal tax rate even higher than already scheduled. Currently, the top federal tax rate is 35 percent, but President Obama has proposed to allow it to increase to 39.6 percent.

In addition, the House of Representatives' version of health care reform includes a 5.4 percent surtax on incomes over $500,000 a year. All these increases, combined with state and local income taxes, would raise the average top marginal rate in the U.S. to over 52 percent. This would be higher than traditionally high-tax countries such as Italy, Spain, and even France.

A Growing List. Below is a list of the tax increases Congress and the Administration have proposed to finance health care reform. This list includes taxes in the bill passed by the House of Representatives, the bill the Senate is currently debating, and other taxes mentioned as a possible way to pay for health care reform.

- An income surtax on taxpayers earning more than $500,000 a year,[1]
- An excise tax on high-cost "Cadillac" health insurance plans that cost more than $8,500 a year for individuals or $23,000 for families,[2]
- An excise tax on medical devices such as wheelchairs, breast pumps, and syringes used by diabetics for insulin injections,[3]
- A cap on the exclusion of employer-provided health insurance without offsetting tax cuts,[4]
- A limit on itemized deductions for taxpayers with a top income tax rate greater than 28 percent,[5]

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/wm2706.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

The Heritage Foundation
LEADERSHIP FOR AMERICA

- A windfall profits tax on health insurance companies,[6]
- A value-added tax, which would tax the value added to a product at each stage of production,[7]
- An increase in the Medicare portion of the payroll tax to 3.4 percent for incomes great than $200,000 a year ($250,000 for married filers),[8]
- An excise tax on sugar-sweetened beverages including non-diet soda and sports drinks,[9]
- Higher taxes on alcoholic beverages including beer, wine, and spirits,[10]
- A tax on individuals without acceptable health care coverage of up to 2.5 percent of their adjusted gross income,[11]
- A limit on contributions to health savings accounts,[12]
- An 8 percent tax on all wages paid by employers that do not provide their employees health insurance that satisfies the requirements defined by the Secretary of Health and Human Services,[13]
- A limit on contributions to flexible spending arrangements,[14]
- Elimination of the deduction for expenses associated with Medicare Part D subsidies,[15]
- An increase in taxes on international businesses,[16]
- Elimination of the tax credits paper companies take for biofuels they create in their production process—the so-called "Black Liquor credit,"[17]
- Fees on insured and self-insured health plans,[18]
- A limit or repeal of the itemized deduction for medical expenses,[19]

1. The Affordable Health Care for America Act, H.R. 3962, § 551.
2. America's Healthy Future Act of 2009, S. 1796, § 6001.
3. *Ibid.*, § 6009.
4. Teddy Davis, "Will Obama Tax Your Health Benefits?," ABC News, May 12, 2009, at *http://abcnews.go.com/Politics/Business/story?id=7562814&page=1* (November 18, 2009).
5. White House Office of Management and Budget, "The President's 2010 Budget: Summary Tables," August 2009, Table S-2, at *http://www.whitehouse.gov/omb/budget/fy2010/assets/summary.pdf* (November 18, 2009).
6. Jared Allen, "House Dems Looking at Windfall Profits Tax on Insurance Industry," *The Hill*, October 8, 2009, at *http://thehill.com/homenews/house/62211-house-dems-considering-windfall-profits-tax-on-insurance-industry* (November 18, 2009).
7. Lori Montgomery, "Once Considered Unthinkable, U.S. Sales Tax Gets Fresh Look," *The Washington Post*, May 27, 2009, at *http://www.washingtonpost.com/wp-dyn/content/article/2009/05/26/AR2009052602909.html* (November 18, 2009).
8. Joint Committee on Taxation, "Estimated Revenue Effects of the Revenue Provisions Contained in 'The Patient Protection and Affordable Care Act,'" November 18, 2009, at *http://www.jct.gov/publications.html?func=startdown&id=3635* (November 19, 2009).
9. *Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options*, Committee on Finance, U.S. Senate, 111th Cong., 1st Sess., May 20, 2009, at *http://finance.senate.gov/Roundtable/complete%20text%20of%20financing%20policy%20options.pdf* (November 18, 2009).
10. *Ibid.*
11. The Affordable Health Care for America Act, H.R. 3962, § 501.
12. *Ibid.*, § 533.
13. *Ibid.*, § 512.
14. *Ibid.*, § 532.
15. *Ibid.*, § 534.
16. *Ibid.*, § 553, 554, 561–563.
17. Katie Howell, "'Black Liquor' Tax Credit Restriction Rides on Health Care Bill," *The New York Times*, November 4, 2009, at *http://www.nytimes.com/gwire/2009/11/04/04greenwire-black-liquor-tax-credit-restriction-rides-on-h-15986.html* (November 18, 2009).

- A limit on the Qualified Medical Expense definition,[20]
- An increase in the payroll taxes on students,[21]
- An extension of the Medicare payroll tax to all state and local government employees,[22]
- An increase in taxes on hospitals,[23]
- An increase in the estate tax,[24]
- Increased efforts to close the mythical "tax gap,"[25]
- A 5 percent tax on cosmetic surgery and similar procedures such as Botox treatments, tummy tucks, and face lifts,[26]
- A tax on drug companies,[27]
- An increase in the corporate tax on providers of health insurance,[28] and
- A $500,000 deduction limitation for the compensation paid by health insurance companies to their officers, employees, and directors.[29]

More to Come. The full list of taxes proposed to pay for health care reform is provided because taxes currently left out of the Senate or House bills could reappear at any point. For instance, the tax on cosmetic surgery listed above (sometimes called the "Botox tax") was written off long ago as a laughable way to pay for health care reform. Nevertheless, it somehow found its way into the current version of the Senate bill.

As the legislative process continues and Congress's desperation to pass a bill increases, it could propose even more tax hikes to pay for its massive expansion of government size and power. The Heritage Foundation will update this list with each new proposal.

No Time for Tax Hikes. Raising taxes at any time is economically harmful, but doing so during a severe recession is reckless. The higher taxes in the health care plans would depress economic activity and delay recovery. When the recovery does finally come, it would be weaker than it would have been without all the tax increases. In the long run, economic growth would remain lower because of these damaging tax increases.

Instead of rushing through a badly conceived health care bill and raising taxes to pay for it, Congress should focus first on economic recovery by increasing the incentives to work, save, invest, and take on new economic risk. Congress can do so by dropping all talk of tax increases and extending permanently the 2001 and 2003 tax cuts.[30] That is the only way to pull the economy out of the "Great Recession" and get unemployed Americans back to work.

—Curtis S. Dubay is Senior Analyst in Tax Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

18. Joint Committee on Taxation, "Estimated Revenue Effects of the Revenue Provisions Contained in H.R. 3962, the "Affordable Health Care for America Act," Scheduled for Consideration by the House of Representatives," November 7, 2009, at *http://www.jct.gov/publications.html?func=startdown&id=3633* (November 18, 2009).
19. *Financing Comprehensive Health Care Reform.*
20. *Ibid.*
21. *Ibid.*
22. *Ibid.*
23. *Ibid.*
24. Office of Management and Budget, "The President's 2010 Budget: Summary Tables," Table S-11.
25. *Ibid.*
26. Joint Committee on Taxation, "Estimated Revenue Effects."
27. *Ibid.*
28. *Ibid.*
29. *Ibid.*
30. J. D. Foster and William W. Beach, "Economic Recovery: How Best to End the Recession," Heritage Foundation *WebMemo* No. 2191, January 7, 2009, at *http://www.heritage.org/Research/Economy/wm2191.cfm.*

JOINT COMMITTEE ON TAXATION
November 18, 2009
JCX-55-09

ESTIMATED REVENUE EFFECTS OF THE REVENUE PROVISIONS CONTAINED IN THE "PATIENT PROTECTION AND AFFORDABLE CARE ACT" [1]

Fiscal Years 2010 - 2019

[Billions of Dollars]

Provision	Effective	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
Revenue Offset Provisions													
1. 40% excise tax on health coverage in excess of $8,500/$23,000 indexed for inflation by CPI-U plus 1% and increased thresholds for over age 55 retirees or certain high-risk professions; levied at insurer level; employer aggregates and issues information return for insurers indicating amount subject to the excise tax; nondeductible; high 17 state transition relief [2]	tyba 12/31/12	—	—	—	7.1	13.0	17.0	21.6	25.8	29.9	34.7	20.2	149.1
2. Employer W-2 reporting of value of health benefits	tyba 12/31/10	Negligible Revenue Effect											
3. Conform the definition of medical expenses for health savings accounts, Archer MSAs, health flexible spending arrangements, and health reimbursement arrangements to the definition of the itemized deduction for medical expenses (excluding over-the-counter medicines prescribed by a physician) [2]	tyba 12/31/10	—	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.1	5.0
4. Increase the penalty for nonqualified health savings account distributions to 20%	dma 12/31/10	—	[3]	[3]	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.2	1.3
5. Limit health flexible spending arrangements in cafeteria plans to $2,500 [2] [4]	tyba 12/31/10	—	0.6	0.9	1.6	2.0	1.9	1.9	1.9	1.9	1.9	5.1	14.6
6. Require information reporting on payments to corporations	pma 12/31/11	—	—	0.4	3.3	2.0	2.1	2.2	2.3	2.4	2.5	5.6	17.1
7. Additional requirements for section 501(c)(3) hospitals	tyba DOE	Negligible Revenue Effect											
8. Impose annual fee on manufacturers and importers of branded drugs	[5]	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	11.0	22.2

AJS000042

Provision	Effective	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
9. Impose annual fee on manufacturers and importers of certain medical devices	[6]	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	9.6	19.3
10. Impose annual fee on health insurance providers	[7]	5.5	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	29.9	60.4
11. Study and report of effect on veterans health care	DOE	No Revenue Effect											
12. Eliminate deduction for expenses allocable to Medicare Part D subsidy	tyba 12/31/10	—	0.3	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.8	1.9	5.4
13. Raise 7.5% AGI floor on medical expenses deduction to 10%; AGI floor for individuals age 65 and older (and their spouses) remains at 7.5% (sunset 12/31/16)	tyba 12/31/12	—	—	—	0.4	1.5	1.6	1.7	2.5	3.7	3.9	2.0	15.2
14. $500,000 deduction limitation on taxable year remuneration to officers, employees, directors, and service providers of covered health insurance providers	[8]	—	—	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.6
15. Additional 0.5% hospital insurance tax on wages in excess of $200,000 ($250,000 joint) [2]	tyba 12/31/12	—	—	—	12.8	5.6	6.1	6.6	7.1	7.6	8.0	18.4	53.8
16. Modification of section 833 treatment of certain health organizations	tyba 12/31/09	[3]	0.1	0.1	[3]	[3]	[3]	[3]	[3]	[3]	[3]	0.2	0.4
17. Impose 5% excise tax on cosmetic surgery and similar procedures	ppo/a 1/1/10	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	2.6	5.8
Total of Revenue Offset Provisions		9.6	12.2	13.4	37.4	36.4	41.0	46.4	52.1	58.2	63.8	109.0	370.2
Other Provisions													
1. Provide income exclusion for specified Indian tribe health benefits	[9]	—	[10]	[10]	[10]	[10]	[10]	[10]	[10]	[10]	[10]	[10]	[10]
2. Simple cafeteria plan nondiscrimination safe harbor for certain small employers	tyba 12/31/10	Negligible Revenue Effect											
3. Qualifying therapeutic discovery project credit (sunset 12/31/10)	[11]	-0.4	-0.2	-0.1	-0.1	[10]	[10]	—	—	—	—	-0.9	-0.9
Total of Other Provisions		-0.4	-0.2	-0.1	-0.1	[10]	[10]	[10]	[10]	[10]	[10]	-0.9	-0.9

Provision	Effective	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
Revenue-Related Provision - Impose Fee on Insured and Self-Insured Health Plans; Comparative Effectiveness Research Trust Fund.....	[12]	—	—	—	0.1	0.3	0.3	0.4	0.4	0.5	0.7	0.4	2.6
NET TOTAL		9.2	12.0	13.3	37.4	36.7	41.3	46.8	52.5	58.7	64.5	108.5	371.9

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column:
dma = distributions made after
DOE = date of enactment
pma = payments made after
ppo/a = procedures performed on or after.
tyba = taxable years beginning after

[1] Detail of estimates will be included in the forthcoming letter from the Congressional Budget Office to the Honorable Harry Reid, Senate Majority Leader, regarding the budgetary effects of the "Patient Protection and Affordable Care Act."

[2] Estimate includes the following off-budget effects:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
40% excise tax on health coverage........	—	—	—	1.5	2.7	3.5	4.5	5.4	6.3	7.5	4.2	31.3
Conform the definition of medical expenses........	—	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.6	1.4
Limit health flexible spending arrangements........	—	0.1	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	1.2	3.7
Additional 0.5% hospital insurance tax........	—	—	—	2.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	2.7	1.5

[3] Gain of less than $50 million.
[4] Estimate includes interaction with other proposals.
[5] Effective for calendar years beginning after December 31, 2009; fee is allocated based on market share of branded prescription drug sales for calendar years beginning after December 31, 2008.
[6] Effective for calendar years beginning after December 31, 2009; fee is allocated based on market share of certain medical device sales for calendar years beginning after December 31, 2008.
[7] Effective for calendar years beginning after December 31, 2009; fee is allocated based on market share of net premiums written for any United States health risk and third party administration agreement fees for calendar years beginning after December 31, 2008.
[8] Effective for remuneration paid in taxable years beginning after 2012 with respect to services performed after 2009.
[9] Effective for health benefits and coverage provided after the date of enactment.
[10] Loss of less than $50 million.
[11] Effective for amounts paid or incurred after December 31, 2008, in taxable years beginning after December 31, 2008.
[12] Effective with respect to policies and plans for portion of policies or plan years beginning on or after October 1, 2012.

January 14, 2010

This is the print preview: Back to normal view »

Arianna Huffington

Posted: December 21, 2009 07:15 PM

14044560450

The Senate Health Care Bill: Leave No Special Interest Behind

With Monday morning's 1 a.m. 60-40 vote, the Senate's health care bill took another step towards passage, prompting a fresh round of public celebrations. "I think it's very exciting," HHS Secretary Kathleen Sebelius told HuffPost. "It's a big day."

Even many of those with serious reservations about the bill were slipping on their party hats. "Make no mistake about it," said SEIU president Andy Stern, "for working Americans, this vote signals progress."

And Paul Krugman, while calling the legislation "a seriously flawed bill we'll spend years if not decades fixing," applauded it as "an awesome achievement."

This typifies the current thinking of the "Don't let the perfect be the enemy of the good" crowd. Unfortunately, there are three faulty premises at work in this line of reasoning. First, that those who oppose the bill do so because it's not perfect (as opposed to because it's a hot health care mess). Second, that the bill is, well, good (as opposed to a total victory for Pharma and the insurance industry -- witness the spectacular spike in health care stocks following Monday's vote).

Third is the premise that this is as good a bill as we can get right now, and we can always go back and improve it later.

It doesn't work that way. We heard the same kinds of sentiments about No Child Left Behind when it passed in 2001. Backers on both sides of the aisle had problems with it, but both sides celebrated it as a major step forward -- and promised to make it better in the future.

"The agreement we reached reflects the best thinking of both sides," said Sen. Joe Lieberman.

"This was a reform bill. We can't have reform without resources, and that will be the next step," said Sen. Tom Daschle.

"This is a good bill... And there are going to be many additional steps that will be necessary along the way, but all of us are committed to following in those steps," said Sen. Ted Kennedy, the primary Democratic co-sponsor of the bill.

But despite the widespread commitment to taking the "many additional steps" needed, the steps were never taken, the resources were never allocated, the bill was never improved, and, indeed, is now generally regarded as a disaster (or, as Bill Clinton put it last year, "a train wreck").

In an ominous sign of things to come, Vicki Reggie Kennedy, Sen. Kennedy's widow, made many of the same arguments that were used in support of No Child Left Behind in her *Washington Post* op-ed promoting passage of the current health care bill.

It's a moving piece of writing -- and nobody doubts her late husband's heartfelt dedication to health care reform. But nobody doubted his dedication to education reform, either.

If the miserable Senate health care bill becomes the law of the land, it's only going to encourage the preservation of a hideously broken system. Just how broken the system is is summed up in the fate of Byron Dorgan's drug re-importation amendment.

This is an idea that Obama co-sponsored when he was in the Senate and unequivocally championed on the campaign trail: "We'll allow the safe re-importation of low-cost drugs from countries like Canada."

But when Dorgan introduced an amendment that would do just that, the White House, sticking to the deal it made with the pharmaceutical industry, lobbied against it -- and the commissioner of the supposedly non-political FDA just happened to release a letter citing "significant safety concerns" about all those dangerous drugs from Canada. Big Pharma's many congressional lackeys trumpeted the letter and the amendment was killed.

But that didn't stop David Axelrod from insisting in an interview with John King this weekend that "the president supports safe re-importation of drugs into this country. There's no reason why Americans should pay a premium for the pharmaceuticals that people in other countries pay less for."

No reason other than our broken system surrendering to the special interests.

From start to finish, the insurance and drug industries -- and their army of lobbyists -- had control over the process that resulted in a bill that is reform in name only. The postmortems of how they pulled it off have already begun. On Sunday, the *Chicago Tribune* published an exhaustive front-page analysis by Northwestern University's Medill News Service and the Center for Responsive Politics of how it was done. The main culprit: "a revolving door between Capitol Hill staffers and lobbying jobs for companies with a stake in health care legislation."

The study found that 13 former congressmen and 166 congressional staffers were actively engaged in lobbying their former colleagues on the bill. The companies they were working for -- some 338 of them -- spent $635 million on lobbying. It was money extremely well spent -- delivering a bill that, by forcing people to buy a shoddy product in a market with no real competition, enshrines into law the public subsidy of private profit.

As we approach the end of Obama's first year in office, this public subsidizing of private profit is becoming something of a habit. It is, after all, exactly what the White House did with the banks. Just as he did with insurance companies, Obama talked tough to the bankers in public but, when push came to shove, he ended up shoving public money onto their privately-held balance sheets.

This is not just bad policy, it's bad politics.

Sharp-eyed opponents are already seizing on the opportunity to rebrand Obama and the Democrats as the party beholden to special interests.

Sunday night, just before the post-midnight vote was taken, John McCain took to the Senate floor and, hearkening back to his days as a crusader for campaign finance reform, lambasted Obama and the Democrats' "negotiations with the special interests," adding: "We should have set up a tent out in front and put Persian rugs in front of it. That's the way that this has been conducted. So the special interests were taken care of, then we had to take care of special senators."

This kind of populist rhetoric resonates with voters across the board, including independents. If Democrats cede this turf by celebrating a bill that is a victory for special interests and special senators, look for a lot more of this kind of rhetoric in the run-up to 2010.

President Bush brought us preemptive war. President Obama's specialty seems to be preemptive compromise. He gave the farm away to Pharma, and then had to keep on giving when Lieberman, Nelson, and the other industry-backed Senators came calling.

There are many reasons for hoping the current Senate bill doesn't become law. But the biggest reason of all is the desperate need for a DC pattern interrupt. The desperate need to draw a line in the sand against the continued domination of our democracy -- and the continued undermining of the public interest -- by special interests.

Books & More From Arianna Huffington

Follow Arianna Huffington on Twitter: www.twitter.com/ariannahuff

msnbc.com

'Special interests' on both sides in health fight

Obama's nailed down agreements with deep-pocketed drug makers

The Associated Press
updated 3:34 p.m. ET,Wed., Aug 19, 2009

WASHINGTON - As public pitchman, President Barack Obama accuses special interests of fighting to block his health care overhaul. "They run their ads. And let's face it, they scare people," he told one weekend audience.

Yet Obama has spent months assembling a formidable lineup of special interests of his own, an essential element of a plan to remake the health care system and succeed where President Bill Clinton memorably failed.

"We have the American Nurses Association, we have the American Medical Association on board," Obama told the weekend crowd in Grand Junction, Colo. "We have an agreement from drug companies to make prescription drugs more affordable for seniors. ... The AARP supports this policy."

In the parlance of Washington, the organizations on both sides are special interests — the insurance industry and business groups strongly opposed to t he direction health care legislation is taking in Congress, as well as the groups of doctors, nurses, drug makers and labor unions working to pass an overhaul despite any misgivings they may have.

Part of the permanent landscape in the capital, they all lobby Congress and federal agencies on the issues they care most about. Many purchase political ads in campaign season or try to turn out their own memberships to vote for preferred candidates. They have enormous sums at stakes in the outcome of the struggle over Obama's proposed remaking of the health care system.

Take just two:

What's the difference?

"They're stakeholders when they're with you, and they're interest groups when they're against you," Mary Matalin, a Republican, said recently, a tongue-in-cheek explanation that hints at the unappealing aroma associated with the label "special interests."

White House spokesman Robert Gibbs seemed to understand as much when he said the administration is benefiting from the help of "interest groups," avoiding the more unsavory term "special interests."

"It'd be sort of odd to go to a town hall meeting and rail against interest groups that are supporting reform ... who have acknowledged that it's time for health care reform," he said. The president's criticism is aimed at "interest groups that are aligned to keep the status quo either because it benefits them or they have a vested interest."

Far more than semantics is involved.

Eager to succeed where Clinton failed,

msnbc.com

14044360454

Obama nailed down agreements with deep-pocketed drug makers and others. The effect was not only to secure allies who could pay for grass-roots and advertising campaigns but also to drive a wedge between Republicans and organizations that have supported them in the past.

Despite the obvious turbulence surrounding Obama's proposals, there is evidence the strategy is working. GOP discomfort was obvious when Rep. John Boehner, the House Republican leader, accused the drug industry of trying to protect its own profits by "cutting a deal with the bully" on health care.

It marked a turnabout from the days when congressional Republicans received two-thirds of the political contributions handed out by the pharmaceutical industry.

Ken Johnson, a senior vice president at PhRMA, sought the high ground in response. "We have been working diligently for more than a year to advance bipartisan health care reform. We're proud of those efforts, and they are completely consistent with our core principles."

The drug makers went first in making a deal with the White House, agreeing to pick up $80 billion in additional costs over the next decade to help defray the expenses of the legislation.

The American Hospital Association agreed to shoulder an additional $155 billion.

In exchange, both won assurances the White House would protect them against attempts in Congress to seek additional cuts in their projected Medicare and Medicaid payments.

The American Medical Association's key issue was different. Doctors hope the legislation will allow them to avoid a looming 21 percent cut in payments under Medicare. The cost to the government for that would be about $230 billion over a decade.

Obama also agreed to require individuals to purchase insurance, reversing a position he held during his campaign. "My thinking on the issue of mandates has evolved. And I think that that is typical of most people who study this problem deeper," he said.

It was a bow to the special interests — some now with Obama, others not — that suddenly opened up the possibility of millions of new customers with insurance to help pay for their health care.

latimes.com/news/nationworld/nation/la-na-health-pharma14-2009aug14,0,5896090.story

latimes.com

White House deal with drug firms draws flak

An $80-billion pact with the pharmaceutical industry intended to advance the administration's healthcare reform goals has instead created confusion and discord.

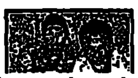
By Tom Hamburger

August 14, 2009

Reporting from Washington

An $80-billion deal with the drug industry that the White House thought would add momentum to its campaign for national healthcare reform has instead provoked a political tempest, frustrating and bewildering some of the president's most important allies.

As complaints rolled in, the administration offered varying, sometimes contradictory explanations of the deal.



"I've heard a lot of confusion about what was agreed to," said Rep. Henry A. Waxman (D-Beverly Hills), chairman of the House Energy and Commerce Committee, who wrote healthcare legislation that would impose more cost on the industry than that contained in the White House agreement.

Under the deal, the Pharmaceutical Research and Manufacturers of America, or PhRMA, agreed to provide $80 billion in cost savings over 10 years. It also promised to promote healthcare reform in a multimillion-dollar ad campaign. In return, the White House agreed to consider the $80 billion as a cap on PhRMA's costs in the overhaul legislation. In addition, the White House agreed not to require rebates on sales of commonly prescribed drugs to patients enrolled jointly in Medicaid and Medicare.

Separately, the White House told PhRMA executives that legislation the industry has long opposed to permit importation of cheaper drugs from Canada and Europe would probably not be necessary if a healthcare overhaul bill passed.

The drug industry's chief lobbyist, PhRMA President W.J. "Billy" Tauzin, said the unwritten agreement was reached with Democratic Sen. Max Baucus of Montana, chairman of the Senate

14044360455

Finance Committee, and was closely monitored and "blessed" by the White House.

Since the agreement was announced June 20 -- with President Obama saying, "We are at a turning point in America's journey toward healthcare reform" -- critics from the left and right have criticized the accord. Business and conservative interests are angry that one of their most important traditional allies -- PhRMA -- is now working with Democrats to build support for the president's plan. Liberals say Obama gave away too much to the industry.

House Speaker Nancy Pelosi (D-San Francisco) said wryly that she thought if PhRMA agreed to $80 billion in savings, it was likely that real savings could probably be twice that amount. She suggested that the House might not honor the White House-PhRMA-Senate deal. Sen. Bernie Sanders (I-Vt.) said that when he read news accounts suggesting that the White House had told PhRMA it would not pursue Canadian drug importation, he sought and received assurances from White House Chief of Staff Rahm Emanuel that there was no such deal.

After that conversation, however, White House healthcare spokeswoman Linda Douglass confirmed to reporters that the White House had discussed the importation provision with worried drug company executives, telling them that "health insurance reform that lowers costs, including pharmaceutical costs, would probably make such legislation unnecessary." Sanders views that as a dubious assumption and says he intends to continue to pursue the provision.

Waxman became concerned about other reports of what was in the agreement, in part because he feared it might undermine aspects of his healthcare bill. In an interview this week, he expressed alarm about Tauzin's claim -- since revised -- that the deal included a promise not to have Medicare seek further drug price discounts.

"It's ridiculous to have a program in which Medicare spends millions of dollars with drug companies as a customer and does not get a better deal on pharmaceutical prices," Waxman said.

After first declining to comment, the White House now says the topic did not explicitly come up in discussions with the industry.

"I think a lot of people in the room walked away with a different understanding of what was agreed to," Waxman said.

Tauzin, a former congressman from Louisiana, believed that he had an understanding that there would not be negotiations over Medicare drug prices in the future. Currently, government negotiations for lower prices are banned in the Medicare Part D program under a "noninterference" clause that the industry lobbied for several years ago.

This week, Tauzin's top aide at PhRMA, Ken Johnson, reiterated that view but said it was time to stop public discussions about whether it came up in the closed-door White House meetings.

From the time the industry was first asked to participate in crafting healthcare overhaul legislation, Johnson said that Tauzin told everyone: "We'll do everything we can to help. But we will not support price controls, because they will hurt patients by drying up research and development needed to find new cures, and they will kill jobs in a very fragile economy."

Tauzin thought the White House and others understood that meant there would be no change in the government prohibition on price negotiations for drugs. "We thought there was an underlying assumption on that key point," Johnson said.

At this stage, he added, "it's counterproductive to keep talking about it."

tom.hamburger@latimes.com

Complaint Communications
#23 & #24

Complaint Communication #23

Script: Person 1: "Thank you, Bill Halter. Thank you!"

Announcer: "While millionaire Bill Halter was a highly paid director of a US company, they exported American jobs to Bangalore, India."

Person 2: "Bangalore needs many, many jobs. Thank you, Bill Halter."

Announcer: "With almost 65,000 Arkansans out of work, we needs jobs, too."

Person 3: "Thank you, thank you, Bill Halter!"

Announcer: "Bangalore says thanks, Bill Halter. Arkansas, tell Bill Halter thanks for nothing. Americans for Job Security is responsible for the content of this advertising."

Graphic: Tell Bill Halter: Support Arkansas jobs, not jobs in India
Call (501) 682-2144

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to job creation and outsourcing, issues central to AJS's mission. The issues of job creation and outsourcing were topics of debate in Arkansas and across the country at the time this communication aired. The issue of outsourcing jobs was a serious issue, and one that as Lieutenant Governor of Arkansas, Bill Halter was in a position to affect in Arkansas. The communication specifically requests that the viewer contact Bill Halter to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Lt. Governor Halter as a candidate, reference an election, or exhort the public to campaign for or contribute to his opponent. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not take a position on Lt. Governor Halter's character, qualifications, or fitness for office. Third, it focuses on jobs and outsourcing — legislative and executive issues — and urges the public to adopt a particular position and contact Lt. Governor Halter with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Lt. Governor Halter because it focuses on public policy issues, urges the public to contact him about the issue, and includes a call to action urging something other than voting for or against or contributing to Lt. Governor Halter — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

Complaint Communication #24

Script: Announcer: "Arkansas families are struggling – thousands out of work. Politicians? They say one thing and do another. Bill Halter says he has never outsourced American jobs. But the facts tell a different story. When he was a highly paid corporate director, his company outsourced jobs to India. Those jobs could have boosted a community here in Arkansas. But all they boosted was Bill Halter's company's bottom line."

"Call Bill Halter. Tell him to support policies for job creation here in America. Americans for Job Security is responsible for the content of this advertising."

Graphic: Call Bill Halter at (501) 682-2144 and tell him to support policies to create jobs in America.

Express Advocacy Analysis: As can be seen, this communication does not contain any terms that expressly advocate the election or defeat of any clearly identified federal candidate, and, therefore, does not constitute express advocacy under 11 C.F.R § 100.22(a). See Buckley, 424 U.S. at 44 n. 52.

Also, this communication does not constitute express advocacy under 11 C.F.R. § 100.22(b). The issues discussed in this advertisement pertain to job creation and outsourcing, issues central to AJS's mission. The issue of job creation was a topic of debate in Arkansas and across the country at the time this communication aired. The issue of outsourcing jobs was a serious issue, and one that as Lieutenant Governor of Arkansas, Bill Halter was in a position to affect economic development policy in Arkansas. The communication specifically requests that the viewer contact Bill Halter to discuss these issues. See MUR 5634 OGC Report # 2 at 16. Moreover, the communication does not refer to Lt. Governor Halter as a candidate, reference an election, or exhort the public to campaign against him or contribute to his opponent. See 72 Fed. Reg. 5604. Accordingly, the communication does not contain an electoral portion that is unmistakable, unambiguous and suggestive of only one meaning and does not constitute express advocacy under 11 C.F.R. § 100.22(b).

Functional Equivalent Analysis: This communication also qualifies for the safe harbor under 11 C.F.R. § 114.15(a) because it is susceptible of a reasonable interpretation other than as an appeal to vote for or against a clearly identified federal candidate. First, it does not mention any election, candidacy, political party, opposing candidate, or voting by the general public. Second, it does not

14044360461

take a position on Lt. Governor Halter's character, qualifications, or fitness for office. Third, it focuses on job creation and outsourcing — legislative and executive issues — and urges the public to adopt a particular position and contact Lt. Governor Halter with respect to these issues. 11 C.F.R. § 114.15(b).

Even if the communication did not qualify for the safe harbor, it is still a permissible electioneering communication under 11 C.F.R. § 114.15(c). Here, there is no indicia of express advocacy because the communication does not mention any election, candidacy, political party, opposing candidate or voting by the general public and takes no position on any candidate's or officeholder's character, qualifications or fitness for office. Id. § 114.15(c)(1). The communication includes content that would support a determination that it has an interpretation other than as an appeal to vote against Lt. Governor Halter because it focuses on public policy issues, urges the public to contact Lt. Governor Halter about the issue, and includes a call to action urging something other than voting for or against or contributing to Lt. Governor Halter — namely, to call him. § 114.15(c)(2). The balancing test in § 114.15(c) clearly indicates that this is a permissible electioneering communication.

RELEASE DATE: 09 August 2007
SOURCE: http://gmj.gallup.com
CONTACT: Gallup Management Journal
INFORMATION: Editorial and Executive Offices
1251 Avenue of the Americas, Suite 2350
New York, NY 10020
+1.888.274.5447

Beware: Your Customers Oppose Outsourcing

Gallup finds that nearly 80% of Americans think that outsourcing is bad for the U.S. economy -- and not just because of the loss of jobs

by Bryant Ott

14044360463

Outsourcing American jobs to countries like India and China has been a polarizing issue ever since U.S. companies started shipping different parts of their business processes overseas to capitalize on the differences in labor costs. Businesses of every size, including the U.S. Chamber of Commerce, report multiple outsourcing success stories and expound the benefits of transforming the U.S. economy by creating new trade markets and by sending work overseas.

> While part of the public is extremely concerned about the outsourcing of quality U.S. jobs overseas, Americans are more concerned with possible communication problems with customer service centers.

However, most Americans are more wary of the practice. The majority of Americans say that outsourcing is bad for the U.S. economy. They also report extreme concern with multiple aspects of call center outsourcing specifically, including the ability to communicate effectively with outsourced customer service representatives.

Simply put: American executives should be aware of the fact that, regardless of what their companies think of outsourcing, the vast majority of their customers aren't keen on it.

Bad for the U.S. economy?

Gallup asked more than 39,000 members of its probability-based household panel, which is representative of the U.S. adult population, the following question:

There has been some discussion recently about "outsourcing," which is when American businesses hire workers in other parts of the world in order to save money. Which comes closer to your view . . . Outsourcing is bad for the American economy because it sends good jobs overseas, or, outsourcing is good for the American economy because it keeps the cost of goods and services down?

Based on this definition of outsourcing, 77% of Americans say that outsourcing is bad for the U.S. economy. Thirteen percent of the public says that outsourcing is good for the American economic system, while another 10% say they don't know if outsourcing is good or bad.

Certain subgroups of the American public are more likely than others to say that outsourcing is bad for the U.S. economy. Negative opinions about the impact of outsourcing on America increase with age, and positive opinions increase with education levels. Also, Republicans are more than twice as likely as Democrats to say that outsourcing is good for the U.S. economy.

Outsourced service not foreign to Americans

An increasing number of industry sectors participate in outsourcing. Whether they are specialized manufacturing workers or general customer service representatives, employees from multiple areas of the U.S. workforce are having their job responsibilities outsourced. The public recognizes the changing tides, particularly with respect to call center representatives: Nearly 90% of Americans say that call center representative outsourcing has increased in the past five years.

Call centers aren't the only parts of businesses being sent overseas, but the interaction with customer service associates might be Americans' most likely experience with the effects of outsourcing. Most Americans (90%) say they have called a company's customer service center to get help with a product or service or with a question related to billing. Of those who have called for assistance, 86% say that when they called a customer service center to ask a question or to get help, they believed that they were talking with a representative who is based outside of the United States.

Concern about communication

A majority of the public says that the outsourcing of U.S. jobs is bad for the nation's economy because the practice sends good employment opportunities from the United States overseas. However, other aspects of call center outsourcing are of even greater concern to Americans.

Gallup asked its panelists who said they have called a company's customer service center for help at least once this hypothetical question: *"If you called a customer service center and you knew you were speaking to a representative based outside the United States, how concerned would you be about each of the following?"* Respondents answered using a scale of 1 to 5, with 1 being "not at all concerned" and 5 meaning "extremely concerned."

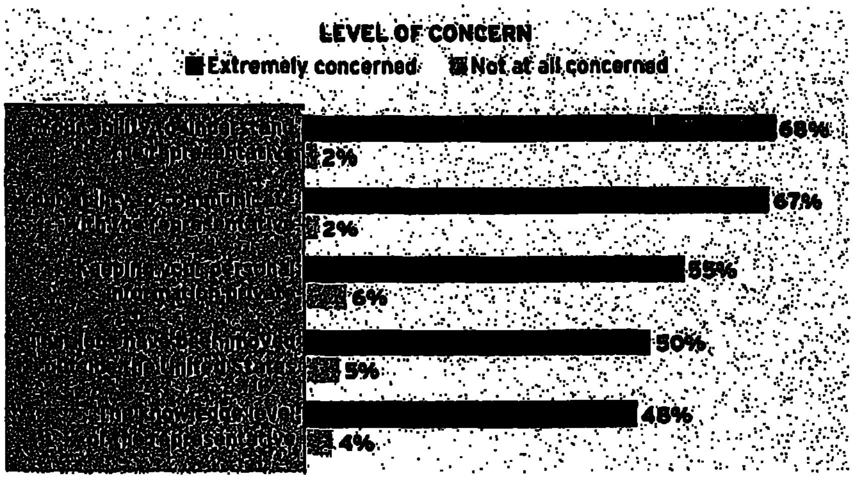
The results indicate that while half of the public is extremely concerned about the outsourcing of quality U.S. jobs overseas, Americans are more concerned with possible communication problems with customer service centers.

Specifically, more than two-thirds of Americans (68%) say they would be extremely concerned with their own ability to understand the customer service representative on the other end of the phone. Similarly, a nearly identical percentage of Americans (67%) indicate extreme concern with their own ability to communicate with the call center representative.

More than half of the public (55%) is extremely concerned about outsourced customer service associates' abilities to keep callers' personal information private. Nearly half of Americans say they are extremely concerned about foreign representatives' knowledge levels (48%).

A FAILURE TO COMMUNICATE?

Gallup asked respondents this hypothetical question: *"If you called a customer service center and you knew you were speaking to a representative based outside the United States, how concerned would you be about each of the following?"* The results indicate that Americans are more concerned about communicating with customer service representatives (67%) or being able to understand them (68%) than they are about the outsourcing of U.S. jobs overseas (50%).



Source: Gallup

Graphic by Tommy McCall

Implications for businesses

Companies that outsource some or all of their customer service operations or those that are considering sending this kind of work overseas might not be surprised that their customers care more about their ability to communicate with customer service representatives than about the fact that jobs are being sent outside the United States. This is because a vast majority of respondents say they've called a customer service representative to have their questions answered and problems solved, while many economists estimate that the jobs lost to outsourcing represent a small percentage of the total jobs in the U.S. economy.

According to public opinion, ensuring that customer service professionals are able to properly communicate with customers and take care of their needs -- regardless of whether they're in Indianapolis or India -- should be the greatest concern to businesses that currently or prospectively outsource work overseas. Americans' concerns about communicating effectively with customer service associates are probably more applicable to their daily lives than the overall business strategy of outsourcing, but that doesn't mean Americans are not concerned about sending U.S. jobs overseas.

So, according to their customers, companies face multiple challenges: convincing the public that outsourcing is the right thing to do for their business and reinforcing their decisions with positive results, such as quality communication between customer service call center associates and their consumers.

Bryant Ott is a writer and editor for Gallup.

14044360465

Americans Increasingly Concerned About Outsourcing Personal Data, Survey Reveals

BY: News Report | June 8, 2006

A new survey sponsored by global law firm
White & Case LLP, and developed by independent privacy think tank
Ponemon Institute, found that the majority of American consumers do not want US companies sharing personal information with outsourcing companies overseas.
Fifty-one percent of those US adults surveyed said that they did not want a US organization to send sensitive personal information such as social security or driver's license numbers to a local company in another country. Opposition was higher when it came to sharing even more sensitive information: 60 percent didn't want their credit or debit card account numbers shared with an offshore company; 64 percent opposed having their employee records shared; 73 percent opposed having their banking or home mortgage information shared; and a whopping 83 percent opposed having their health records shared with a local company in another country.

"That so many Americans are concerned about sensitive personal data going overseas isn't surprising given the growing threat of identity theft and general misperceptions about outsourcing itself," said White & Case partner Steve Betensky, who regularly advises companies on outsourcing issues. "But what makes this so challenging for US companies is that while consumers don't want their information sent overseas, 73 percent of US adults surveyed also said they are unwilling to pay higher prices for products or services if that would ensure that their personal information would not be outsourced offshore."

Betensky adds that the problem is further compounded by the fact that 82 percent of survey respondents felt that new US regulations were needed to ensure that offshore companies had adequate security and privacy safeguards in place -- despite the fact that many industries such as healthcare and financial services are already strongly regulated.

"When customers aren't willing to pay more for security safeguards, they automatically turn to government for relief. That leads to increased regulations, which generally leads to higher costs for companies in order to comply or risk fines. So the real message I take away from this survey is that companies better be prepared to pay more one way or the other. The best thing that companies can to do is negotiate their outsourcing contracts carefully so that the offshoring entity assumes some of the risk and costs associated with privacy safeguards and takes responsibility for ensuring that those privacy safeguards are effective," said Betensky.

Larry Ponemon, CEO and founder of Ponemon Institute, said that the survey also revealed that Americans do not view all countries equally when it comes to offshoring. When asked to select from 47 countries where outsourcing operations occur, US adults felt most comfortable with Canada, Ireland and India, giving them highest overall trust rankings with respect to local companies taking steps to protect or safeguard personal information. Philippines, Mexico, Haiti and Russia received the lowest trust rankings.

"Those statistics seem to confirm what we see in the global market place. India and Ireland have increasingly become some of the most attractive places for outsourcing ventures -- not only due to a well-educated workforce and lower salaries, but because those jurisdictions have made an active effort to establish strong regulations when it comes to outsourcing issues, including privacy," said Ponemon.

The study randomly surveyed 11,729 US adults via the Internet. In total, 1421 respondents completed the survey during an 8 day-research period. Of those, 127 were rejected because of incomplete or inconsistent responses -- results were thus drawn from a total of 1,294 people from every region of the United States.

PR Newswire
United Business Media

PRINT THIS

Survey Finds Americans Increasingly Concerned About Outsourcing Personal Data

Up to 83% of Respondents Don't Want Sensitive Data Sent Off Shore

NEW YORK, June 6 /PRNewswire/ -- A new survey sponsored by global law firm White & Case LLP, and developed by independent privacy think tank Ponemon Institute, found that the majority of American consumers do not want US companies sharing personal information with outsourcing companies overseas.

Fifty-one percent of those US adults surveyed said that they did not want a US organization to send sensitive personal information such as social security or driver's license numbers to a local company in another country. Opposition was higher when it came to sharing even more sensitive information: 60 percent didn't want their credit or debit card account numbers shared with an offshore company; 64 percent opposed having their employee records shared; 73 percent opposed having their banking or home mortgage information shared; and a whopping 83 percent opposed having their health records shared with a local company in another country.

"That so many Americans are concerned about sensitive personal data going overseas isn't surprising given the growing threat of identity theft and general misperceptions about outsourcing itself," said White & Case partner Steve Betensky, who regularly advises companies on outsourcing issues. "But what makes this so challenging for US companies is that while consumers don't want their information sent oversees, 73 percent of US adults surveyed also said they are unwilling to pay higher prices for products or services if that would ensure that their personal information would not be outsourced offshore."

Betensky adds that the problem is further compounded by the fact that 82 percent of survey respondents felt that new US regulations were needed to ensure that offshore companies had adequate security and privacy safeguards in place -- despite the fact that many industries such as healthcare and financial services are already strongly regulated.

"When customers aren't willing to pay more for security safeguards, they automatically turn to government for relief. That leads to increased regulations, which generally leads to higher costs for companies in order to comply or risk fines. So the real message I take away from this survey is that companies better be prepared to pay more one way or the other. The best thing that companies can to do is negotiate their outsourcing contracts carefully so that the offshoring entity assumes some of the risk and costs associated with privacy safeguards and takes responsibility for ensuring that those privacy safeguards are effective," said Betensky.

Larry Ponemon, CEO and founder of Ponemon Institute, said that the survey also revealed that Americans do not view all countries equally when it comes to offshoring. When asked to select from 47 countries where outsourcing operations occur, US adults felt most comfortable with Canada, Ireland and India, giving them highest overall trust rankings with respect to local companies taking steps to protect or safeguard personal information. Philippines, Mexico, Heiti and Russia received the lowest trust rankings.

"Those statistics seem to confirm what we see in the global market place. India and Ireland have increasingly become some of the most attractive places for outsourcing ventures -- not only due to a well-educated workforce and lower salaries, but because those jurisdictions have made an active effort to establish strong regulations when it comes to outsourcing issues, including privacy," said Ponemon.

The study randomly surveyed 11,729 US adults via the Internet. In total, 1421 respondents completed the survey during an 8 day-research period. Of those, 127 were rejeoted because of incomplete or inconsistent responses -- results were thus drawn from a total of 1,294 people from every region of the United States.

A complete copy of the survey can be obtained at http://www.whitecase.com/outsourcingandprivacy

About White & Case

White & Case LLP is a leading global law firm with nearly 2000 lawyers practicing in 36 offices in 24 countries. White & Case's Privacy practice operates at the forefront of privacy issues and data protection laws. We advise clients on how to adopt sound privacy practices, avoid privacy risks, and protect their competitive advantege, including in relation to developing outsourcing cootracts and policies. We also represent clients in privaoy- related litigation. Each year we host an annual Global Privacy symposium, write articles and publish or sponsor surveys related to complex privacy issues. Visit http://www.whitecase.com.

About the Ponemon Institute, LLC

Ponemon Institute is a "think tank" dedicated to advancing responsible information management practices in business and government. To achieve this objective, Ponomon Institute conducts independent research on privacy and information security, educates leaders from the private and public sectors, and verifies the privacy and data protection practicee of organizations. The Institute is headquartered in Michigan. For more information, visit http://www.ponemon.org or contact (800) 887.3118.

SOURCE White & Case LLP

Back to top

Find this article at:
http://www.prnewswire.com/news-releases/survey-finds-americans-increasingly-concerned-about-outsourcing-personal-data-55946747.html

Check the box to include the list of links referenced in the article.

AngusReidPublicOpinion
A VISIONCRITICAL Practice

English

About Us

Advanced Search

Issue Watch

Track global public opinion on current issues.

- 2010 U.S. Election
- 2011 British Referendum
- 2011 Canadian Election
- Abortion
- Afghanistan
- Death Penalty
- Economy and Globalization
- Environment
- European Union
- Global Warming
- Immigration
- Oil and Gas
- Same-Sex Marriage
- Sports & Leisure
- Terrorism

Polls By Country

View polls specific to your region.

People

Bios of our experts and researchers

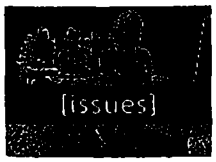
Services

A complete list of all the services we provide.

ARPO Twitter

Get short, timely messages from AngusReidGlobal

The Poll Archive



(03/22/06) -Outsourcing of Jobs is Top Concern in U.S.

(Angus Reid Global Scan) – Many Americans are preoccupied with the pr using less expensive labourers in foreign countries to do work previously a higher cost in the United States, according to a poll by Greenberg Quinl Rosner Research and Public Opinion Strategies for National Public Radi cent of respondents are worried about global economic competition and outsourc

(Angus Reid Global Scan) – Many Americans are preoccupied with the practice of using less expensiv labourers in foreign countries to do work previously done at a higher cost in the United States, accordi poll by Greenberg Quinlan Rosner Research and Public Opinion Strategies for National Public Radio. cent of respondents are worried about global economic competition and the outsourcing of American j

The Iraq war and continuing violence between religious groups in the country is second on the list wit cent, followed by Iran resisting international pressure and working to develop nuclear weapons with 2 illegal immigration with 14 per cent, and the foreign ownership of U.S. port operations and lack of atter homeland security with 11 per cent.

On Mar. 3 in India, Bush discussed the impact of globalization, saying, "People do lose jobs (...) and it for those who lose jobs. But the fundamental question is, how does a government or society react to th It's basically one of two ways. One is to say, losing jobs is painful, therefore, let's throw up protectionis And the other is to say, losing jobs is painful, so let's make sure people are educated so they can fill th the 21st Century. And let's make sure that there's pro-growth economic policies in place. What does th mean? That means low taxes; it means less regulation; it means fewer lawsuits; it means wise energ

Polling Data

I want you to think about some things that happening in the world that could impact things here in Ame Please tell me which concerns you the most.

Global economic competition and the outsourcing of American jobs	26%
Iraq war and continuing violence between religious groups	23%
Iran resisting international pressure and working to develop nuclear weapons	21%
Illegal immigration	14%
Foreign ownership of U.S. port operations and lack of attention to Homeland security	11%

Source: Greenberg Quinlan Rosner Research / Public Opinion Strategies / National Public Radio
Methodology: Telephone interviews with 800 registered American voters, conducted from Mar. 12 to Ma 2006. Margin of error is 3.5 per cent.

14044360471

Barack Obama reiterates outsourcing concerns, asks US firms to bring jobs back home

ET Bureau Jan 28, 2012, 04.42AM IST

Tags: unemployment | Outsourcing | Nasscom | Michael Dell | HCL Technologies | Dell Inc | B

US President Barack Obama once again raised concerns on outsourcing, calling out to US firms jobs back home, during his final State of the Union speech before the November elections.

Obama's speech comes at a time when the US has been battling with stubborn unemployment t continues to hover around 8.5% and sluggish economic growth. Though the President primarily r manufacturing jobs in his speech, he also said increasing adoption of technology had led to job l

"Let's remember how we got here. Long before the recession, jobs and manufacturing began leav shores. *Technology made businesses more efficient, but also made some jobs obsolete," he sai* said companies creating jobs would be incentivised while those moving jobs overseas would not deductions.

"We will not go back to an economy weakened by outsourcing, bad debt, and phoney financial p Tonight, I want to speak about how we move forward, and lay out a blueprint for an economy that last - an economy built on American manufacturing, American energy, skills for American worker renewal of American values," he said.

Nasscom said despite rhetoric, US continues to face a shortage of skilled technical staff - a trigg offshore outsourcing of software coding and computer hardware management jobs.

"Nasscom has always maintained that 3%-4% unemployment in the technology sector means a and a critical theme of the President's speech corroborated this thinking," Nasscom President S said.

"The US economy has been going though challenging times. We are hopeful that positive moves rebuilding America will bring in desired results. The Indian IT industry has been contributing subs

HCL Technologies

BSE	NSE
500.10 ▲	501.25 ▲
3.67 % 17.75	3.72 % 18.00
Vol: 1893 shares traded	Vol: 26103 shares traded

Prices | Financials | Company Info | Reports

RELATED ARTICLES

Barack Obama raises outsourcing bogie, calls out to US...
January 26, 2012

Tata Consultancy Services not keen on

AJS000066

Lufthansa systems buy...

December 27, 2011

Outsourcing shadow hangs over Obama's India visit

November 6, 2010

IN-DEPTH COVERAGE

Outsourcing

Offshore Outsourcing

Michael Dell

build innovation in the US economy," he added.

America's top CEOs such as Michael Dell, the founder of computer maker Dell, say they will con expand overseas.

"America has about 4 % of the world's population. So, we have a desire to sell to 100% of the wo population. That means 96% of our customers are outside the United States. We say look we an where the customers are. India is a huge market for us; growing fast, great success. China is a h for us. We are going where the customers are. And that's a good thing," the founder of Dell Inc, M said in an interview to ET earlier this month.

On their part, Indian tech firms have been increasing proportion of local staff in the US. HCL Tech said it will create 10,000 jobs in US and Europe within next five years.

Budget 2012 at ET: Budget 2012 | Union Budget | Rail Budget 2012 | Budget News

FEATURED ARTICLES

Mahindra XUV 500 launched at a starting price of Rs 10.8 lakh

14 lakh Aakash Tablets booked in 14 days

How to choose th infrastructure bo saving season

More:

Corporation Bank to hire 1,000 people by September

How to choose the best infrastructure bonds this tax-saving season

BSNL's Rs 30,000-crore cash pile reduces to Rs 2,500 crore in FY11

Jeevan Saral vs recurring deposit: what's bad

Nokia Siemens to cut 2,900 jobs in 1,200 in Finland

LIC launches Jeevan Vriddhi

American Enterprise Institute for Public Policy Research

AEI

International Economic Outlook

No. 1 • March 2011

Trade Winds: Which Way Is Public Opinion Blowing?

By Karlyn Bowman and Andrew Rugg

Plagued by slow economic growth and high unemployment, the Obama administration has been rethinking its stance on trade. Administration officials are trying to move the South Korea free trade agreement forward, and Republicans in Congress see an opportunity to push for agreements with Colombia and Panama as well. Does this enthusiasm from policymakers match the public mood? In tough economic times, Americans are less disposed to favor free trade, but they recognize the benefits of an integrated global economy. This Outlook offers a comprehensive new look at American attitudes toward trade.

At a breakfast organized by Bloomberg News in early February, newly minted Obama chief of staff William Daley told the assembled reporters, "We want Korea," referring to the long-delayed trade pact. Daley was reinforcing words President Barack Obama used in his State of the Union speech, when he asked Congress to pass the Korea free trade agreement (FTA) "as soon as possible."[1] Later in February, at a speech to the Chamber of Commerce, the president declared his intention to seek new opportunities to open markets and promote US exports.[2] He signaled again his administration's intention to secure trade pacts with Colombia and Panama and to bring Russia into the international trading system. His audience at the chamber applauded, as did Republican leaders in Congress.

Politicians of both parties seem to be falling all over one another to talk up trade. Yet last October, the *Wall Street Journal* ran a front-page, above-the-fold story on its new poll titled "Americans Sour on Trade."[3] The Pew Research Center echoed those sentiments in a November release, when it reported that "support for free trade is now at one of its lowest points in 13 years of Pew Research Center Surveys."[4]

Are the president and Republican congressional leaders out of step with public opinion on trade? Or have Americans become more favorably disposed toward trade since the fall? It is possible, of course, that Americans' deep concerns about high unemployment could be making them more receptive to anything that moves the needle on jobs. But it is also possible that the negative results the *Wall Street Journal* trumpeted on its front page were only part of the story. A careful review of

Karlyn Bowman (kbowman@aei.org) is a senior fellow at AEI. Andrew Rugg (andrew.rugg@aei.org) is a research assistant at AEI. This *Outlook* is based on a longer paper prepared at the request of Jagdish Bhagwati for the Report by the High-Level Group of Experts on Trade, cochaired by Bhagwati and Peter Sutherland, a former director general of the World Trade Organization.

Topics covered in this *Outlook*:

Revisiting NAFTA 2
The Salience of Trade 3
Trade in General 4
Who Benefits, Who Is Hurt . . 6
Outsourcing 7
Globalization 8

polling data starting with the North American Free Trade Agreement (NAFTA) suggests that Americans are deeply ambivalent about trade, seeing both positive and negative aspects. Sometimes a too literal reading of any individual poll can mislead.

Politicians of both parties seem to be falling all over one another to talk up trade.

Polls can be valuable in understanding complex societies, but they also have significant limitations. Here we refer not to low response rates, although those are a significant problem for the business, but to the ways in which surveys are deployed today. Questions are asked sporadically, producing large gaps in our understanding of attitudes about trade and other subjects and making it difficult to draw reliable conclusions about trends. Most pollsters today poll on issues when they are in the news and then drop the questions when the media searchlight moves on. When pollsters ask about free trade, they rarely ask questions about the salience of the issue. It is important to know how important trade is compared to, for example, health care or taxes.

Perhaps more significant than these concerns, however, there are many areas in which public opinion is tentative. Questions about specific trade agreements often produce high "don't know" or "no answer" responses. Suggesting that public opinion is firm on particular agreements can be wrong. The large "don't know" responses may also indicate, as they did during the debate over NAFTA, that people's attitudes are malleable. The polls taken right before and after NAFTA's passage, for example, showed shifts in opinion over a short period of time. These fluctuations during the heat of the debate suggest that Americans did not have strong convictions about the agreement. Americans rarely give specific legislative guidance. The polls are most useful to analyze general concerns, and here, despite low levels of specific knowledge and attention, Americans' opinions on many aspects of trade are clear and firm—although persistently ambivalent.

Revisiting NAFTA

For most Americans, NAFTA has been and remains the most visible US trade agreement. During most of the debate leading up to its passage in Congress in late 1993, large numbers of Americans said they did not have an opinion about it. In five iterations of an NBC/*Wall Street Journal* question asked between January and October 1993, more than a third responded that they had not heard enough about "the North American Free Trade Agreement with Mexico and Canada" to have an opinion of it. Other polls produced similar results. Such low levels of interest or knowledge indicate the limited attention Americans normally pay to trade.

Americans started paying closer attention as the final vote approached. (The House of Representatives approved NAFTA on November 17.) Sixty-eight percent of respondents in late November 1993 told Gallup/CNN/ USA *Today* that they were following "news about the North American Free Trade Agreement" closely, up from 42 percent in August. Opinions about NAFTA were narrowly negative in most polls during 1992 and most of 1993, but they improved a little in November and December 1993. In most of the questions asked in late November 1993, respondents narrowly favored the agreement. After NAFTA was enacted, the public became inattentive again. A September 2003 question from Zogby International told respondents that NAFTA has "been in effect now for ten years." Thirty-seven percent said it had been a good thing for the United States, 33 percent a bad thing, but a significant 29 percent were not sure or had no opinion.

Pollsters moved on to other subjects, although they continued to ask the occasional question about NAFTA. In 2004 and 2008, the Chicago Council asked whether NAFTA had been good or bad for various groups. In both years, around 60 percent said it had been bad for job security for American workers.

Q: *Overall, do you think the North American Free Trade Agreement, also known as* NAFTA, *is good or bad for . . . ?*

NAFTA has been	Good		Bad	
	2004	2008	2004	2008
Job security for American workers	25%	32%	60%	64%
The US economy	42	42	43	55
Consumers like you	55	53	30	43
The Mexican economy	69	70	16	24

SOURCE: Chicago Council/Knowledge Networks.

The polls on NAFTA reveal patterns about trade attitudes that remain true today. First, Americans rarely follow specific trade debates closely. In terms of general attitudes, they believe trade in principle is good. They almost always say trade agreements are better for our trading partners than for us. They are generally more positive about the impact of agreements on the US economy than they are about their impact on American workers. People almost always say trade agreements are bad for American workers. Almost all questions about trade that mention "jobs" or "American workers" produce negative responses.

Additionally, when the US economy is doing poorly, opinions about trade in general (and many other issues) are usually negative. Americans' "sour" attitudes described in the *Wall Street Journal* headline discussed earlier reflect the economic environment.

Opinion Today: The Salience of Trade

Since 2001, Princeton Survey Research Associates (PSRA)/Pew has asked people about priorities for the president and Congress in the coming year. In 2011, they asked about twenty-two separate issues. Eighty-seven percent described the economy as a top priority, followed by jobs (84 percent) and terrorism (73 percent). Thirty-four percent mentioned "dealing with global trade" as a top priority. The proportion viewing dealing with global trade as a top priority since 2001 has ranged from a high of 37 percent in 2001 and 2008 to a low of 25 percent in 2002. In these polls, the issue has consistently ranked among the bottom five issues tested.

Gallup uses a different approach, asking people to say in their own words the most important problem facing the country. Less than 1 percent in January 2011 told Gallup that trade was the most important issue. Since 2000, in multiple iterations of this question, no more than 1 percent has ever spontaneously mentioned trade. Five percent is usually considered a threshold of significance. It is possible, of course, that people are thinking about trade when they say the economy or jobs (the top problems in recent polls), but it rarely comes up unprompted.

In the 2008 election year, when people were asked by *Fortune*/Abt/SRBI about issues that would be important to them in the 2008 presidential election, "trade with foreign nations" ranked dead last of eleven issues examined, on par with abortion. Eighteen percent said trade was extremely important. The top issue was the country's economy (46 percent said it was extremely important).

Looking at the 2008 polls provides a useful perspective on the salience of trade. In a February 2008 debate with Hillary Clinton in the hotly contested Democratic primary, then-senator Obama said, "I will make sure that we renegotiate [NAFTA] . . . I think we should use the hammer of a potential opt-out as leverage to ensure that we actually get labor and environmental standards that are enforced."[5] A media firestorm ensued after a Canadian television station reported that one of the president's senior advisers, Austan Goolsbee, now serving as chairman of the Council of Economic Advisers, may have suggested to Canadian embassy officials that Obama was not really serious about pulling back on NAFTA and that his tough talk was an attempt to appeal to economically hard-hit Midwestern primary voters. The controversy got quite a bit of attention, and it may have affected public opinion. The sentiments about trade in the April 2008 PSRA/Pew poll when trade was in the news were more negative than the polls conducted before or after that date. (These PSRA/Pew questions appear later in this *Outlook*.)

Even though trade is not a top-of-the-mind issue for most Americans, it plays a significant role in politics. Our AEI colleagues Claude Barfield and Philip I. Levy have written about the evolution of trade policy and politics in recent years. Barfield argues that "the most fascinating and important events and trends are encapsulated in the evolution of political and policy divisions within the Democratic Party."[6] Barfield and Levy note that a new Democratic era began in 2006, when Democrats took control of both houses of Congress. "Of the 42 newly elected Democratic members of the House of Representatives, a sizeable majority had run on explicitly antiglobal platforms."[7] Before Obama took office in January 2009, they write, these Democrats put their stamp on US trade policy, successfully forcing the Bush administration to include labor and environmental requirements into four pending FTAs.[8]

Barfield and Levy wrote at the end of Obama's first six months in office, noting the split personality of the new administration, with the president taking action to avoid being labeled a protectionist while not pushing trade liberalization as part of his economic recovery program. They described the power of a vocal minority of House Democrats who opposed moving any FTAs forward, even those the president and his trade representative had hoped to advance, such as the Panama and Colombia FTAs. Before the 2010 elections, other priorities such as the health care bill took precedence for the Obama administration. Now it appears that trade (or at least trade talk) has moved to center stage.

In 2010, no nonpartisan preelection national poll in the Roper Center archive that asked people about issues that would be important to potential voters in the November election included trade as a "most important" election issue. In all polls, the economy or jobs were the top issues. Outsourcing became a popular buzzword during the campaign, and trade was a contentious subject in many places on the campaign trail, especially the economically hard-hit industrial Midwest. In the late October 2010 NBC/*Wall Street Journal* poll, 7 percent of registered voters said the "message" of their vote would be to stop outsourcing jobs. Twenty-one percent, the top response, said it would be to focus more on the economy and jobs.

In the 2010 exit poll conducted by a consortium of the five broadcast networks and the Associated Press, the economy was the top issue for voters nationally. In only one state, Ohio, did the exit pollsters ask about trade or NAFTA. Two-thirds of Ohio voters in 2010 checked a box saying that NAFTA had taken jobs from Ohio, while 9 percent said it had created jobs there and 16 percent said it had had no effect. Of the voters who said it had taken jobs from Ohio, 58 percent voted for Republican Rob Portman for the US Senate and 37 percent for his opponent, Democrat Lee Fisher. Given Portman's experience as US trade representative under President George W. Bush, trade became an especially prominent issue in this race. Fisher attacked his opponent on trade with ads like this one: "Congressman Rob Portman knows how to grow the economy—in China. . . . He voted for billions in tax breaks for companies that export jobs. On his watch as Bush's trade czar, our deficit with China exploded, sending a hundred thousand Ohio jobs overseas. . . . Outsourcing, bad trade deals, soaring deficits. Congressman Portman—a real economic plan, but not for Ohio." Portman won the election by 59 to 39 percent.

The political pendulum swung widely not only in Ohio but also nationally, bringing in a Republican House and more Republicans in the Senate. In the industrial Midwest, Republicans made significant gains. Democrats used negative feelings about outsourcing in many campaigns in the fall—and as is shown later in this *Outlook*, it is unpopular. But given the election results, it is difficult to say that trade or outsourcing were decisive issues in the 2010 contests.

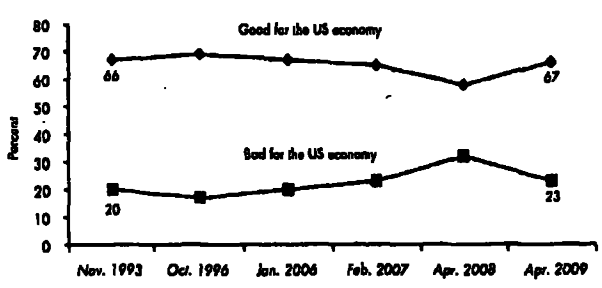
Slow economic growth, high unemployment, the need to correct a perceived antibusiness tilt, and foreign policy imperatives appear to have caused the White House to rethink trade. Shortly after the 2010 election, the president defended free trade in speeches in India and elsewhere, and as described above, he and his administration appear to be pushing trade agreements more aggressively than in the past. At this writing, we do not have much information about how members of the large Republican freshman class in Congress feel about trade. On March 1, the *National Journal* reported that "[a]t least 64 of the 87 new House Republicans will sign a letter today urging President Obama to move forward quickly on free-trade agreements with Colombia, Panama, and South Korea." This level of support for FTAs among Republicans is consistent with the recent past, according to Barfield.

Trade in General

In 1993, shortly after NAFTA became law, CBS News and the *New York Times* asked about trade in general. Two-thirds said that "trade with other countries—both buying and selling products—is good for the US economy," while 20 percent described it as bad. Sixty-four percent of Democrats, 66 percent of independents, and 72 percent of Republicans agreed it was good. When they last asked the question in April 2009, the responses were similar. Two-thirds said it was good and 23 percent bad. The results were remarkably consistent across six identical questions asked over the sixteen years from 1993 to 2009. In each asking, Republicans were more enthusiastic than Democrats, but their responses were not significantly different.

Q: *On balance, do you think trade with other countries—both buying and selling products—is good for the US economy, or is it bad for the US economy, or does it have no effect?*

Trade with other countries—both buying and selling products—is . . .



SOURCE: CBS/*New York Times*.

At the same time, however, 56 percent in 2000 and 60 percent in 2009 in another question asked by the same pollsters said that trade restrictions are necessary to protect domestic industries. These two questions sum up a persistent tension in the public's mind. While trade is good in principle, it rarely seems so in practice, so restrictions are necessary to protect domestic industries.

Q: *Which of the following statements comes closer to your opinion? Trade restrictions are necessary to protect domestic industries, or free trade must be allowed, even if domestic industries are hurt by foreign competition?*

	Trade restrictions are necessary	Free trade must be allowed
Jul. 2000	56%	31%
Jan. 2006	64	29
Mar. 2008	68	24
Apr. 2009	60	28

SOURCE: CBS/*New York Times*.

Another question, asked first by Gallup in 1992 and then picked up by CNN and the Opinion Research Corporation in 2007, asks people whether they see foreign trade as more of an opportunity for economic growth through increased US exports or a threat to the economy from foreign imports. In two polls in 2000, when the US economy was doing well, 54 and 56 percent said it was more of an opportunity for growth, the highest responses given on this question. In the latest asking of this question from November 2010, far fewer, 41 percent, gave that response. Half said foreign trade was more of a threat to the economy.

Q: *What do you think foreign trade means for America? Do you see foreign trade more as an opportunity for economic growth through increased US exports or a threat to the economy from foreign imports?*

	More of an opportunity for growth	Threat to economy
Sept. 1992	44%	48%
Nov. 1994	53	38
Jan. 2000	54	35
May 2000	56	36
Feb. 2001	51	37
Feb. 2002	52	39
Nov. 2003	49	41
June 2005	44	48
Dec. 2005	45	46
Feb. 2006	43	48
Oct. 2007	46	45
June 2008	41	51
Apr. 2009	56	40
Nov. 2010	41	50

NOTE: The Chicago Council included this question in their online poll in 2010. In the June poll, 55 percent said it was more of an opportunity for growth and 43 percent more of a threat.
SOURCES: 1992–2006, Gallup/CNN/*USA Today*; 2007–2010, CNN/Opinion Research Corporation.

The 2010 NBC/*Wall Street Journal* question below has been asked five times. It gives people three response categories. The most positive responses came in 1999 when Americans were feeling good about the US economy, and the most negative one came in September 2010 when Americans were feeling very bad about it.

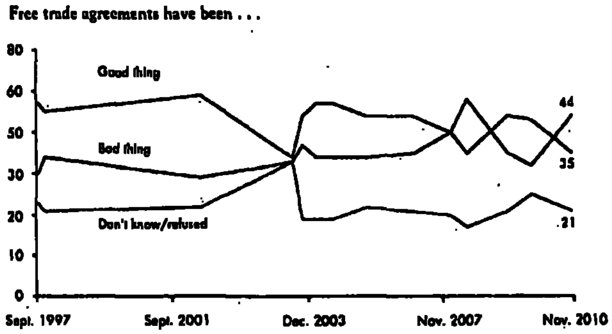
Q: *In general, do you think that free trade agreements between the United States and foreign countries have helped the United States, have hurt the United States, or have not made much of a difference either way?*

	Have helped	Have hurt	Not much difference
Oct. 1999	35%	32%	24%
Dec. 1999	39	30	24
Mar. 2007	28	46	16
Sept. 2010*	17	53	20
Nov. 2010**	23	47	23

NOTES: * Asked of a half sample. ** The November question asked about "free trade" and not "free trade agreements."
SOURCE: NBC/*Wall Street Journal*.

A PSRA/Pew question also shows more positive views about "free trade agreements like NAFTA and the WTO" during good economic times and more negative ones in bad times. In September 2001, nearly half, 49 percent, viewed them positively. In November 2010, 35 percent did.

Q: *In general, do you think that free trade agreements like NAFTA (the North American Free Trade Agreement) and the WTO (World Trade Organization) have been a good thing or a bad thing for the United States?*



NOTE: Question wording varies slightly.
SOURCE: PSRA/Pew Research Center.

In 2004 and 2006, the Chicago Council asked whether international trade was good or bad for various groups. The most negative responses in both years were about job security for US workers. In both years, large majorities said the agreements were good for consumers like them. In a January 2008 *Fortune*/Abt/SRBI question, a large majority agreed that an increase in international trade has made things worse for American workers, the most negative of five response categories. PSRA/Pew asked about FTAs specifically and whether they create jobs or lead to job losses. In the November 2010 asking, only 8 percent said FTAs create jobs, while 55 percent thought they lead to job losses.

Both NBC/*Wall Street Journal* and Pew pollsters report a significant drop in positive feelings about trade among Republicans in their 2010 polls. We have not seen enough polling data to be confident of an explanation for these results. It is possible that Republicans are souring on trade, but it is also possible that they are simply more negative about policies that appear to be associated with the current Democratic administration.

Trade: Who Benefits, Who Is Hurt

In questions about the effects of trade, concerns for American workers and jobs are paramount, and they are almost always negative. This was true before and after NAFTA's passage, and it remains true today, as this NBC News/*Wall Street Journal* question shows.

Q: *Think that free trade agreements between the United States and other countries help to create more jobs in the US or cost the US jobs?*

	Create more jobs	Cost jobs	Depends (Vol.)	Not sure
Jan. 1996	21%	62%	3%	14%
Mar. 1996	25	59	4	12
Sept. 2010*	18	69	2	11

NOTES: * Asked of a half sample. "Vol." stands for "volunteered response."
SOURCE: NBC/*Wall Street Journal*.

Q: *Overall, do you think international trade is good or bad for . . . ?*

	Good		Bad	
	2004	2006	2004	2006
The US economy	57%	54%	39%	42%
American companies	59	52	37	45
Consumers like you	73	73	22	22
Creating jobs in the US	38	37	56	60
The environment	45	45	46	49
Job security for US workers	31	30	64	67
Your own standard of living	65	64	29	31

SOURCE: Chicago Council/Knowledge Networks, latest that of June–July 2006.

Q: *As you may know, international trade has increased a great deal in recent years. Do you think that the growth in international trade has made things better or made things worse for . . . ?*

	The growth in international trade has made things better	made things worse
For the United States as a whole	28%	63%
For you personally	34	38
For American workers	15	78
For American business	37	55
For consumers in the US	48	44

NOTE: Depends, neither, no answer, and don't know categories not shown.
SOURCE: *Fortune*/Abt/SRBI, January 2008.

Q: *Do free trade agreements . . . ?*

Make the price of products sold in the US higher, lower, or not make a difference

	Higher	Lower	No difference
Dec. 2006	30%	32%	23%
Apr. 2008	39	29	18
Nov. 2009	33	32	20
Nov. 2010	31	31	25

Make wages of American workers higher, lower, or not make a difference

	Higher	Lower	No difference
Dec. 2006	11%	44%	30%
Apr. 2008	8	56	22
Nov. 2009	11	49	24
Nov. 2010	8	45	34

Create jobs in the US, lead to job losses, or not make a difference

	Create jobs	Lead to losses	No difference
Dec. 2006	12%	48%	25%
Apr. 2008	9	61	18
Nov. 2009	13	53	19
Nov. 2010	8	55	24

Make the American economy grow, slow the economy down, or not make a difference

	Grow	Slow	No difference
Dec. 2006	28%	34%	21%
Apr. 2008	19	50	17
Nov. 2009	25	42	18
Nov. 2010	19	43	24

SOURCE: PSRA/Pew Research Center.

Polls show that Americans think that international trade benefits other countries more than the United States. When *Fortune*/Abt/SRBI asked in January 2008 if the United States or other countries benefit more from international trade, 68 percent said other countries. Twenty-three percent said the United States. While Americans do not think they come out on top, they do acknowledge trade's benefits for developing countries, as the Pew results here show.

Q: *Are free trade agreements good for people in developing countries, bad for people of developing countries, or don't they make a difference?*

	Good	Bad	No difference
Dec. 2006	57%	9%	19%
Apr. 2008	58	12	19
Nov. 2009	54	8	20
Nov. 2010	54	9	23

SOURCE: PSRA/Pew Research Center.

As consumers, Americans are more appreciative of free trade. In 2006, 78 percent told the German Marshall Fund that free trade leads to lower prices and more product choices for consumers. In the 2004 and 2006 Chicago Council question, 73 percent said international trade was good for "consumers like you" and roughly 65 percent in both years said international trade was good for "your own standard of living." A plurality of 48 percent told *Fortune*/Abt/SRBI in January 2008 that the growth of international trade had made things better for consumers in the United States. Forty-four percent said it had made things worse. But, comparatively, concerns about jobs outweigh the benefits for consumers when it comes to trade. In the same 2008 *Fortune*/Abt/ SRBI poll, when asked if trade was good for the United States because of lower prices to consumers or bad for the United States because of job losses and lower wages, 63 percent said trade was bad due to its impact on jobs and wages. Thirty percent said it was good. In polls taken by the Chicago Council at regular intervals since 1974, "protecting the jobs of American workers" has been the top or one of the top "very important foreign policy goals" of the United States.

Outsourcing

In a question asked in late November and early December 2010 by the *National Journal*'s Heartland Monitor poll, 67 percent said that "decisions by American companies to relocate jobs to other countries" had played a major role in the high unemployment of the past few years, while another 28 percent said these decisions had played a minor role. In the 2008 *Fortune* survey, Abt/SRBI asked

1404436047 9

people how concerned they were about a variety of issues related to trade, and 68 percent said they were concerned about US workers losing jobs that are outsourced to lower-paid workers in other countries.

In the abstract, globalization is appealing. But questions about its real-world effects reveal uncertainty and hesitancy about a more interconnected world.

To put these concerns in context, however, it is also important to look at a question the Gallup Organization has asked yearly since 2003 as part of an extensive battery of questions about people's work experience. Gallup asks people with jobs whether they are worried that their company will "move jobs to countries overseas." The proportion responding that they were worried about this prospect reached a high of 12 percent in 2005. In August 2010, the latest asking of the question, 9 percent gave this response. For comparison purposes, 39 percent of those with jobs in the same poll said they were worried that their benefits would be reduced and a quarter worried that they would be laid off.

A broader question in the 2008 *Fortune*/Abt/SRBI poll found 13 percent were extremely concerned about "losing your job or not getting a job you want because of outsourcing to a foreign country or because of foreign competition." Nine percent were very concerned, 15 percent somewhat concerned, 18 percent not very concerned, and 44 percent not concerned at all. The late November–early December 2010 Heartland Monitor poll of employed people, students, and those looking for work found that 12 percent said they worried "a lot" that their employer could decide to relocate their job overseas to someone in another country, 7 percent worried "some" about the prospect, 11 percent not much, and 68 percent not at all.

It is unsurprising that Americans are not enthusiastic about outsourcing, considering their concern about jobs. Yet they do not appear to bear animus toward India, a country that is often portrayed as the repository of many of those outsourced jobs. In a February 2011 Gallup question in which Americans were asked their opinions of twenty-one different countries, India ranked fifth in terms of favorability, ahead of France and behind longtime allies Canada, Great Britain, Germany, and Japan.

While people are concerned over outsourcing as it relates to the health of the country's economy, the level of *personal* concern is relatively low. The small number of Americans who profess deep personal concern about outsourcing may explain why the issue, used by many Democratic candidates in the 2010 election, appeared not to help Democrats. Outsourcing is a potent political buzzword, but absent deep individual concern, its electoral power appears limited.

Globalization

American attitudes toward globalization seem to have become more negative since the late 1990s, another possible effect of the more negative views of US economic performance. In October 1998, 20 percent told the Chicago Council and Gallup that globalization was "mostly bad." Fifty-four percent said it was mostly good. When the question was last asked in September 2010, 41 percent said it was mostly bad, a twenty-one-point increase from 1998. In 2000, a narrow plurality of 38 percent told *Washington Post*/ Kaiser/Harvard interviewers that globalization was mostly good for the United States. In January 2008, PSRA/Pew asked the same question and found that a plurality of 37 percent thought globalization was mostly bad, a twelve-point increase from the 2000 *Washington Post*/Kaiser/Harvard study. Twenty-four percent stated it was mostly good.

When questions do not use the word "globalization," attitudes tend to be more positive, especially for younger Americans. The Pew question shown below that asks about "growing trade and business ties" between the United States and other countries illustrates the point. Solid majorities rate such ties as good for the United States and good for them and their families.

Q: *What do you think about the growing trade and business ties between the United States and other countries—do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?*

	Very good	Somewhat good	Somewhat bad	Very bad
Aug.–Sept. 2002	21%	57%	14%	4%
Apr.–May 2007	14	45	21	15
Apr. 2008	15	38	26	15
May–June 2009	16	49	20	10
Apr.–May 2010	17	49	19	8

SOURCE: PSRA/Pew Research Center.

1404436004880

AJS000075

Q: Now thinking about you and your family—do you think the growing trade and business ties between our country and other countries are very good, somewhat good, somewhat bad, or very bad for you and your family?

	Very good	Somewhat good	Somewhat bad	Very bad
Aug.–Sept. 2002	20%	59%	11%	4%
Apr. 2008	11	44	27	12
May–June 2009	11	52	21	7

SOURCE: PSRA/Pew Research Center.

Once again, concern over jobs seems to be the reason behind negative attitudes. In 2002, 2008, and 2010, the Chicago Council asked whether globalization was good or bad for various groups.[9] In 2002, 52 percent said globalization is bad for the job security for American workers. In 2008 and 2010, 65 percent said globalization was bad for job security, a thirteen-point increase from 2002. In all three askings, job security received the most negative response of all the categories. In another question asked by NBC/*Wall Street Journal* pollsters in June 1997, 48 percent told interviewers that globalization is bad "because it has subjected American companies and employees to unfair competition and cheap labor." Fifty-eight percent gave that response when the question was asked again in March 2008, a ten-point increase.

Q: Overall, do you think globalization is good or bad for . . . ?

	Good 2008	Good 2010	Bad 2008	Bad 2010
The US economy	46%	46%	51%	50%
American companies	52	49	44	46
Consumers like you	56	59	40	37
Creating jobs in the US	38	36	58	60
The environment	44	40	52	55
Job security for American workers	32	30	65	65
Your own standard of living	51	51	46	44
The next generation of Americans	48	45	49	51

SOURCE: Chicago Council/Knowledge Network.

Q: Do you think the fact that the American economy has become increasingly global is good because it has opened up new markets for American products and resulted in more jobs, or bad because it has subjected American companies and employees to unfair competition and cheap labor?

	Good	Bad
June 1997	42%	48%
Dec. 2007	28	57
Mar. 2008	25	58

SOURCE: NBC/*Wall Street Journal*.

When discussed in the abstract, globalization is appealing. But questions about its real-world effects reveal uncertainty and hesitancy about a more interconnected world. The growth in negative attitudes roughly coincides with difficult economic times. When uncertainty rises in the economy, so does skepticism toward forces of uncertainty, like globalization. Eighty percent in a January 2011 *Washington Post* poll said that the global economy was having a great deal or a fair amount of influence on the way things were going in the United States. In another question, only 36 percent rated America's ability to compete economically in the world and deal with foreign economic competition as excellent or good. Thirty-five percent said it was just fair, and 28 percent negative or not so good. When you care deeply about something, as Americans do about our ability to compete globally, you tend to worry about it. Polls reflect that concern.

Conclusion

Some general impressions emerge from this review. First, trade is usually a back-burner issue for most Americans. When people are asked to volunteer the most important issue facing the country, it barely registers. Different polls produce different results about trade generally, though support for free trade has never been robust. Public opinion on trade is closely tied to Americans' feelings about the economy and jobs. When times are good, as they were in the late 1990s and early part of the century, Americans feel better about trade (and, incidentally, many other issues such as immigration, health care, and race relations). As for specifics, the polls are remarkably consistent about who trade benefits and who it hurts. Consumers usually benefit, while workers lose. Questions about an increasingly integrated global economy yield generally positive answers, as do surveys about connecting Americans with people in other countries. Americans appear to support a more globalized trading economy but fear its real-world effects. This deep ambivalence is likely to persist.

Notes

1. White House, "Remarks by the President in State of Union Address," news release, January 25, 2011, www.whitehouse.gov /the-press-office/2011/01/25/remarks-president-state-union-address (accessed March 1, 2011).

2. White House, "Remarks by the President to the Chamber of Commerce," news release, February 7, 2011, www.whitehouse.gov /the-press-office/2011/02/07/remarks-president-chamber-commerce (accessed March 1, 2011).

3. Sara Murray and Douglas Belkin, "Americans Sour on Trade," *Wall Street Journal*, October 2, 2010.

4. Pew Research Center, "Americans Are of Two Minds on Trade," November 9, 2010, http://pewresearch.org/pubs/1795 /poll-free-trade-agreements-jobs-wages-economic-growth-china-japan-canada (accessed March 1, 2011).

5. Associated Press, "The Democratic Debate in Cleveland," February 26, 2008, www.nytimes.com/2008/02/26/us/politics /26text-debate.html (accessed March 2, 2011).

6. Claude Barfield, "Politics of Trade in the USA and in the Obama Administration," *Asian Economic Policy Review* 4, no. 2 (2009): 227–43.

7. Claude Barfield and Philip I. Levy, "In Search of an Obama Trade Policy," AEI *International Economic Outlook* (August 2009), www.aei.org/outlook/100063.

8. Ibid.

9. In 2002, the Chicago Council worked with Harris Interactive. In 2008 and 2010, it worked with Knowledge Networks.

BusinessWeek

▶ Close Window

FEBRUARY 3, 2003

COVER STORY

The New Global Job Shift

The next round of globalization is sending upscale jobs offshore. They include basic research, chip design, engineering--even financial analysis. Can America lose these jobs and still prosper? Who wins? Who loses?

The sense of resignation inside Bank of America (BAC) is clear from the e-mail dispatch. "The handwriting is on the wall," writes a veteran information-technology specialist who says he has been warned not to talk to the press. Three years ago, the Charlotte (N.C.)-based bank needed IT talent so badly it had to outbid rivals. But last fall, his entire 15-engineer team was told their jobs "wouldn't last through September." In the past year, BofA has slashed 3,700 of its 25,000 tech and back-office jobs. An additional 1,000 will go by March.

Corporate downsizings, of course, are part of the ebb and flow of business. These layoffs, though, aren't just happening because demand has dried up. Ex-BofA managers and contractors say one-third of those jobs are headed to India, where work that costs $100 an hour in the U.S. gets done for $20. Many former BofA workers are returning to college to learn new software skills. Some are getting real estate licenses. BofA acknowledges it will outsource up to 1,100 jobs to Indian companies this year, but it insists not all India-bound jobs are leading to layoffs.

Cut to India. In dazzling new technology parks rising on the dusty outskirts of the major cities, no one's talking about job losses. Inside Infosys Technologies Ltd.'s (INFY) impeccably landscaped 22-hectare campus in Bangalore, 250 engineers develop IT applications for BofA. Elsewhere, Infosys staffers process home loans for Greenpoint Mortgage of Novato, Calif. Near Bangalore's airport, at the offices of Wipro Ltd. (WIT), five radiologists interpret 30 CT scans a day for Massachusetts General Hospital. Not far away, 26-year-old engineer Dharin Shah talks excitedly about his $10,000-a-year job designing third-generation mobile-phone chips, as sun pours through a skylight at the Texas Instrument Inc. (TXN) research center. Five years ago, an engineer like Shah would have made a beeline for Silicon Valley. Now, he says, "the sky is the limit here."

About 1,600 km north, on an old flour mill site outside New Delhi, all four floors of Wipro Spectramind Ltd.'s sandstone-and-glass building are buzzing at midnight with 2,500 young college-educated men and women. They are processing claims for a major U.S. insurance company and providing help-desk support for a big U.S. Internet service provider--all at a cost up to 60% lower than in the U.S. Seven Wipro Spectramind staff with PhDs in molecular biology sift through scientific research for Western pharmaceutical companies. Behind glass-framed doors, Wipro voice coaches drill staff on how to speak American English. U.S. customers like a familiar accent on the other end of the line.

Cut again to Manila, Shanghai, Budapest, or San José, Costa Rica. These cities--and dozens more across the developing world--have become the new back offices for Corporate America, Japan Inc., and Europe GmbH. Never heard of Balazs Zimay? He's a Budapest architect--and just might help design your future dream house. The name SGV & Co. probably means nothing to you. But this Manila firm's accountants may crunch the numbers the next time Ernst & Young International audits your company. Even Bulgaria, Romania, and South Africa, which have a lot of educated people but remain economic backwaters, are tapping the global market for services.

It's globalization's *next* wave--and one of the biggest trends reshaping the global economy. The first wave started two decades ago with the exodus of jobs making shoes, cheap electronics, and toys to developing countries. After that, simple service work, like processing credit-card receipts, and mind-numbing digital toil, like writing software code, began fleeing high-cost countries.

Now, all kinds of knowledge work can be done almost anywhere. "You will see an explosion of work going overseas," says Forrester Research Inc. analyst John C. McCarthy. He goes so far as to predict at least 3.3 million white-collar jobs and $136 billion in wages will shift from the U.S. to low-cost countries by 2015. Europe is joining the trend, too. British banks like HSBC Securities Inc. (HBC) have huge back offices in China and India; French companies are using call centers in Mauritius; and German multinationals from Siemens (SI) to roller-bearings maker INA-Schaeffler are hiring in Russia, the Baltics, and Eastern Europe.

The driving forces are digitization, the Internet, and high-speed data networks that girdle the globe. These days, tasks such as drawing up detailed architectural blueprints, slicing and dicing a company's financial disclosures, or designing a revolutionary microprocessor can easily be performed overseas. That's why Intel Inc. (INTC) and Texas Instruments Inc. are furiously hiring Indian and Chinese engineers, many with graduate degrees, to design chip circuits. Dutch consumer-electronics giant Philips (PHG) has shifted research and development on most televisions, cell phones, and audio products to Shanghai. In a recent PowerPoint presentation, Microsoft Corp. (MSFT) Senior Vice-President Brian Valentine--the No. 2 exec in the company's Windows unit--urged managers to "pick something to move offshore today." In India, said the briefing, you can get "quality work at 50% to 60% of the cost. That's two heads for the price of one."

Even Wall Street jobs paying $80,000 and up are getting easier to transfer. Brokerages like Lehman Brothers Inc. (LEH) and Bear, Stearns & Co. (BSC), for example, are starting to use Indian financial analysts for number-crunching work. "A basic business tenet is that things go to the areas where there is the best cost of production," says Ann Livermore, head of services at Hewlett-Packard

1404406043

AJS000078

Co. (HPQ), which has 3,300 software engineers in India. "Now you're going to see the same trends in services that happened in manufacturing."

The rise of a globally integrated knowledge economy is a blessing for developing nations. What it means for the U.S. skilled labor force is less clear. At the least, many white-collar workers may be headed for a tough readjustment. The unprecedented hiring binge in Asia, Eastern Europe, and Latin America comes at a time when companies from Wall Street to Silicon Valley are downsizing at home. In Silicon Valley, employment in the IT sector is down by 20% since early 2001, according to the nonprofit group Joint Venture Silicon Valley.

Should the West panic? It's too early to tell. Obviously, the bursting of the tech bubble and Wall Street's woes are chiefly behind the layoffs. Also, any impact of offshore hiring is hard to measure, since so far a tiny portion of U.S. white-collar work has jumped overseas. For security and practical reasons, corporations are likely to keep crucial R&D and the bulk of back-office operations close to home. Many jobs can't go anywhere because they require face-to-face contact with customers. Americans will continue to deliver medical care, negotiate deals, audit local companies, and wage legal battles. Talented, innovative people will adjust as they always have.

Indeed, a case can be made that the U.S. will see a net gain from this shift--as with previous globalization waves. In the 1990s, Corporate America had to import hundreds of thousands of immigrants to ease engineering shortages. Now, by sending routine service and engineering tasks to nations with a surplus of educated workers, the U.S. labor force and capital can be redeployed to higher-value industries and cutting-edge R&D. "Silicon Valley doesn't need to have all the tech development in the world," says Doug Henton, president of Collaborative Economics in Mountain View, Calif. "We need very-good-paying jobs. Any R&D that is routine can probably go." Silicon Valley types already talk about the next wave of U.S. innovation coming from the fusion of software, nanotech, and life sciences.

Globalization should also keep services prices in check, just as it did with clothes, appliances, and home tools when manufacturing went offshore. Companies will be able to keep shaving overhead costs and improving efficiency. "Our comparative advantage may shift to other fields," says City University of New York economist Robert E. Lipsey, a trade specialist. "And if productivity is high, then the U.S. will maintain a high standard of living." By spurring economic development in nations such as India, meanwhile, U.S. companies will have bigger foreign markets for their goods and services.

For companies adept at managing a global workforce, the benefits can be huge. Sure, entrusting administration and R&D to far-flung foreigners sounds risky. But Corporate America already has become comfortable hiring outside companies to handle everything from product design and tech support to employee benefits. Letting such work cross national boundaries isn't a radical leap. Now, American Express (AXP), Dell Computer (DELL), Eastman Kodak (EK), and other companies can offer round-the-clock customer care while keeping costs in check. What's more, immigrant Asian engineers in the U.S. labs of TI, IBM (IBM), and Intel for decades have played a big, hidden role in American tech breakthroughs. The difference now is that Indian and Chinese engineers are managing R&D teams in their home countries. General Electric Co. (GE), for example, employs some 6,000 scientists and engineers in 10 foreign countries. GE Medical Services integrates magnet, flat-panel, and diagnostic imaging technologies from labs in China, Israel, Hungary, France, and India in everything from its new X-ray devices to $1 million CT scanners. "The real advantage is that we can tap the world's best talent," says GE Medical Global Supply Chain Vice-President Dee Miller.

That's the good side of the coming realignment. There are hazards as well. During previous go-global drives, many companies ended up repatriating manufacturing and design work because they felt they were losing control of core businesses or found them too hard to coordinate. In a recent Gartner Inc. survey of 900 big U.S. companies that outsource IT work offshore, a majority complained of difficulty communicating and meeting deadlines. As a result, predicts Gartner Inc. Research Director Frances Karamouzis, many newcomers will stumble in the first few years as they begin using offshore service workers.

A thornier question: What happens if all those displaced white-collar workers can't find greener pastures? Sure, tech specialists, payroll administrators, and Wall Street analysts will land new jobs. But will they be able to make the same money as before? It's possible that lower salaries for skilled work will outweigh the gains in corporate efficiency. "If foreign countries specialize in high-skilled areas where we have an advantage, we could be worse off," says Harvard University economist Robert Z. Lawrence, a prominent free-trade advocate. "I still have faith that globalization will make us better off, but it's no more than faith."

If the worries prove valid, that could reshape the globalization debate. Until now, the adverse impact of free trade has been confined largely to blue-collar workers. But if more politically powerful middle-class Americans take a hit as white-collar jobs move offshore, opposition to free trade could broaden.

When it comes to developing nations, however, it's hard to see a downside. Especially for those countries loaded with college grads who speak Western languages, outsourced white-collar work will likely contribute to economic development even more than new factories making sneakers or mobile phones. By 2008 in India, IT work and other service exports will generate $57 billion in revenues, employ 4 million people, and account for 7% of gross domestic product, predicts a joint study by McKinsey & Co. and Nasscom, an Indian software association.

What makes this trend so viable is the explosion of college graduates in low-wage nations. In the Philippines, a country of 75 million that churns out 380,000 college grads each year, there's an oversupply of accountants trained in U.S. accounting standards. India already has a staggering 520,000 IT engineers, with starting salaries of around $5,000. U.S. schools produce only 35,000 mechanical engineers a year; China graduates twice as many. "There is a tremendous pool of well-trained people in China," says Johan A. van Splunter, Philips' Asia chief executive.

William H. Gates III, for one, is dipping into that pool. Although Microsoft started later than many rivals, it is moving quickly to catch up. In November, Chairman Gates announced his company will invest $400 million in India over the next three years. That's on top of the $750 million it's spending over three years on R&D and outsourcing in China. At the company's Beijing research lab, one-third of the 180 programmers have PhDs from U.S. universities. The group helped develop the "digital ink" that makes handwriting show up on Microsoft's new tablet PCs and submitted four scientific papers on computer graphics at last year's prestigious Siggraph conference in San Antonio. Hyderabad, India, meanwhile, is key to Microsoft's push into business software.

This is no sweatshop work. Just two years out of college, Gaurav Daga, 22, is India project manager for software that lets programs

1404436048 4

AJS000079

running on Unix-based computers interact smoothly with Windows applications. Dage's $11,000 salary is a princely sum in a nation with a per capita annual income of $500, where a two-bedroom flat goes for $125 a month. Microsoft is adding 10 Indians a month to its 150-engineer center and indirectly employs hundreds more at IT contractors. "It's definitely a cultural change to use foreign workers," says Sivaramakichenane Somasegar, Microsoft's vice-president for Windows engineering. "But if I can save a dollar, hallelujah."

Corporations are letting foreign operations handle internal finances as well. Procter & Gamble Co.'s (PG) 650 Manila employees, most of whom have business and finance degrees, help prepare P&G's tax returns around the world. "All the processing can be done here, with just final submission done to local tax authorities" in the U.S. and other countries, says Arun Khanna, P&G's Manila-based Asia accounting director.

Virtually every sector of the financial industry is undergoing a similar revolution. Processing insurance claims, selling stocks, and analyzing companies can all be done in Asia for one-third to half of the cost in the U.S. or Europe. Wall Street investment banks and brokerages, under mounting pressure to offer independent research to investors, are buying equity analysis, industry reports, and summaries of financial disclosures from outfits such as Smart Analyst Inc. and OfficeTiger that employ financial analysts in India. By mining databases over the Web, offshore staff can scrutinize an individual's credit history, access corporate public financial disclosures, and troll oceans of economic statistics. "Everybody these days is drawing on the same electronic reservoir of data," says Ravi Aron, who teaches management at the Wharton School at the University of Pennsylvania.

14044360485

Architectural work is going global, too. Fluor Corp. (FLR) of Aliso Viejo, Calif., employs 1,200 engineers and draftsmen in the Philippines, Poland, and India to turn layouts of giant industrial facilities into detailed specs and blueprints. For a multibillion-dollar petrochemical plant Fluor is designing in Saudi Arabia, a job requiring 50,000 separate construction plans, 200 young Filipino engineers earning less than $3,000 a year collaborate in real time with elite U.S. and British engineers making up to $90,000 via Web portals. The principal Filipino engineer on plumbing design, 35-year-old Art Aycardo, pulls down $1,100 a month--enough to buy a Mitsubishi Lancer, send his three children to private school, and take his wife on a recent U.S. trip. Fluor CEO Alan Boeckmann makes no apologies. At a recent meeting in Houston, employees asked point-blank why he is sending high-paying jobs to Manila. His response: The Manila operation knocks up to 15% off Fluor's project prices. "We have developed this into a core competitive advantage," Boeckmann says.

It's not just a game for big players: San Francisco architect David N. Marlatt farms out work on Southern California homes selling for $300,000 to $1 million. He fires off two-dimensional layouts to architect Zimay's PC in Budapest. Two days later, Marlatt gets back blueprints and 3-D computer models that he delivers to the contractor. Zimay charges $18 an hour, vs. the up to $65 Marlatt would pay in America. "In the U.S., it is hard to find people to do this modeling," Zimay says. "But in Hungary, there are too many architects."

So far, white-collar globalization probably hasn't made a measurable dent in U.S. salaries. Still, it would be a mistake to dismiss the trend. Consider America's 10 million-strong IT workforce. In 2000, senior software engineers were offered up to $130,000 a year, says Matt Milano, New York sales manager for placement firm Atlantis Partners. The same job now pays up to $100,000. Entry-level computer help-desk staffers would fetch about $55,000 then. Now they get as little as $35,000. "Several times a day, clients tell me they are sending this work off shore," says Milano. Companies that used to pay such IT service providers as IBM, Accenture (ACN), and Electronic Data Services (EDS) $200 a hour now pay as little as $70, says Vinnie Mirchandani, CEO of IT outsourcing consultant Jetstream Group. One reason, besides the tech crash itself, is that Indian providers like Wipro, Infosys, and Tata charge as little as $20. That's why Accenture and EDS, which had few staff in India three years ago, will have a few thousand each by next year.

Outsourcing experts say the big job migration has just begun. "This trend is just starting to crystallize now because every chief information officer's top agenda item is to cut budget," says Gartner's Karamouzis. Globalization trailblazers, such as GE, AmEx, and Citibank (C), have spent a decade going through the learning curve and now are ramping up fast. More cautious companies--insurers, utilities, and the like--are entering the fray. Karamouzis expects 40% of America's top 1,000 companies will at least have an overseas pilot project under way within two years. The really big offshore push won't be until 2010 or so, she predicts, when global white-collar sourcing practices are standardized.

If big layoffs result at home, corporations and Washington may have to brace for a backlash. Already, New Jersey legislators are pushing a bill that would block the state from outsourcing public jobs overseas. At Boeing Co. (BA), an anxious union is trying to ward off more job shifts to the aircraft maker's new 350-person R&D center in Moscow (page 42).

The truth is, the rise of the global knowledge industry is so recent that most economists haven't begun to fathom the implications. For developing nations, the big beneficiaries will be those offering the speediest and cheapest telecom links, investor-friendly policies, and ample college grads. In the West, it's far less clear who will be the big winners and losers. But we'll soon find out.

By Pete Engardio, Aaron Bernstein, and Manjeet Kripalani
With Frederik Balfour in Manila, Brian Grow in Atlanta, and Jay Greene in Seattle

AJS000080

TIME

Monday, Jul. 28, 2003

Where the Good Jobs Are Going

By Jyoti Thottam

Little by little, Sab Maglione could feel his job slipping away. He worked for a large insurance firm in northern New Jersey, developing the software it uses to keep track of its agents. But in mid-2001, his employer introduced him to Tata Consultancy Services, India's largest software company. About 120 Tata employees were brought in to help on a platform-conversion project. Maglione, 44, trained and managed a five-person Tata team. When one of them was named manager, he started to worry. By the end of last year, 70% of the project had been shifted to India and nearly all 20 U.S. workers, including Maglione, were laid off.

Since then, Maglione has been able to find only temporary work in his field, taking a pay cut of nearly 30% from his former salary of $77,000. For a family and mortgage, he says, "that doesn't pay the bills." Worried about utility costs, he runs after his two children, 11 and 7, to turn off the lights. And he has considered a new career as a house painter. "It doesn't require that much skill, and I don't have to go to school for it," Maglione says. And houses, at least, can't be painted from overseas.

Jobs that stay put are becoming a lot harder to find these days. U.S. companies are expected to send 3.3 million jobs overseas in the next 12 years, primarily to India, according to a study by Forrester Research. If you've ever called Dell about a sick PC or American Express about an error on your bill, you have already bumped the tip of this "offshore outsourcing" iceberg. The friendly voice that answered your questions was probably a customer-service rep in Bangalore or New Delhi. Those relatively low-skilled jobs were the first to go, starting in 1997.

But more and more of the jobs that are moving abroad today are highly skilled and highly paid — the type that U.S. workers assumed would always remain at home. Instead Maglione is one of thousands of Americans adjusting to the unsettling new reality of work. "If I can get another three years in this industry, I'll be fortunate," he says. Businesses are embracing offshore outsourcing in their drive to stay competitive, and almost any company, whether in manufacturing or services, can find some part of its work that can be done off site. By taking advantage of lower wages overseas, U.S. managers believe they can cut their overall costs 25% to 40% while building a more secure, more focused work force in the U.S. Labor leaders — and nonunion workers, who make up most of those being displaced — aren't buying that rationale. "How can America be competitive in the long run sending over the very best jobs?" asks Marcus Courtney, president of the Seattle-based Washington Alliance of Technology Workers. "I don't see how that helps the middle class."

On the other side of the world, though, educated Indian workers are quickly adjusting to their new status as the world's most sought-after employees. They have never been more confident and optimistic — as Americans usually like to think of themselves. For now, at least, in ways both tangible and emotional, educated Americans and Indians are trading places.

Uma Satheesh, 32, an employee of Wipro, one of India's leading outsourcing companies, is among her country's new elite. She manages 38 people who work for Hewlett-Packard's enterprise-servers group doing maintenance, fixing defects and enhancing the networking software developed by HP for its clients. Her unit includes more than 300 people who work for HP, about 90 of whom were added last November when HP went through a round of cost-cutting.

"We've been associated with HP for a long time, so it was an emotional thing," Satheesh says. "It was kind of a mixed feeling. But that is happening at all the companies, and it's going to continue." Satheesh says that five years ago, computer-science graduates had one career option in India: routine, mind-numbing computer programming. Anything more rewarding required emigrating. "Until three years ago, the first preference was to go overseas," she says. Nowadays her colleagues are interested only in business trips to the U.S. "People are pretty comfortable with the jobs here and the pay here"--not to mention the cars and houses that once seemed out of reach. Employees in her group earn from $5,200 a year to $36,000 for the most experienced managers.

And as American companies have grown more familiar with their Indian outsourcing partners, they have steadily increased the complexity of work they are willing to hand over. Rajeshwari Rangarajan, 28, leads a team of seven Wipro workers enhancing the intranet site on which Lehman Brothers employees manage personal benefits like their 401(k) accounts. "I see myself growing with every project that I do here," Rangarajan says. "I really don't have any doubts about the growth of my career."

Her experience with a leading brokerage will probably help. Financial-services companies in the U.S. are expected to move more than 500,000 jobs overseas in the next five years, according to a survey by management consultant A.T. Kearney, and India is by far the top destination. U.S. banks, insurance firms and mortgage companies have been using outsourcing to handle tech support for years. Now these firms are using Indian workers to handle the business operations — say, assessing loan applications and credit checks — that the technology supports. Kumar Mahadeva, CEO of the thriving outsourcing firm Cognizant, explains the appeal: "It becomes logical for them to say, 'Hey, you know everything about the way we do claims processing. Why not take a piece of it?'"

The next logical step, says Andrea Bierce, a co-author of the A.T. Kearney study, is jobs that require more complex financial skills such as equity research and analysis or market research for developing new business. Evalueserve, a niche outsourcing company in Delhi, already performs research for patent attorneys and consulting firms in the U.S. In April, J.P. Morgan Chase said it would hire about 40 stock-research analysts in Bombay — about 5% of its total research staff. Novartis employs 40 statisticians in Bombay who process data from the drug company's clinical research.

But as educated workers in India are finding new opportunities, those in the U.S. feel the doors closing. Last week Bernie Lantz drove 1,400 miles from his home in Plano, Texas, to begin a new life in Utah. He is 58 years old, a bachelor, and had lived in the Dallas area for 24 years. "I'm leaving all my friends," he says with a sigh. "It's quite an upheaval." Lantz used to earn $80,000 a year as a troubleshooter for Sabre, a company based in Southlake, Texas, whose software powers airline-reservations systems. But over the past two years, Sabre has gradually standardized and has centralized its software service. As Sabre began to outsource its internal IT services, Lantz says, he became convinced that jobs like his were becoming endangered. He was laid off in December. (A company spokesman denies that Lantz's firing was related to outsourcing.)

Discouraged by a depressed job market in Dallas, Lantz realized he would have to do something else. In the fall he will begin teaching computer science at Utah State University in Logan, and in the meantime he has learned a lesson of his own: "Find a job that requires direct hands-on work on site," Lantz advises. "Anything that can be sent overseas is going to be sent overseas."

Pat Fluno, 53, of Orlando, Fla., says she, like Maglione, had to train her replacement — a common practice in the domestic outsourcing industry — when her data-processing unit at Germany-based Siemens was outsourced to India's Tata last year. "It's extremely insulting," she says. "The guy's sitting there doing my old job." After 10 months of looking, she is working again, but she had to take a $10,000 pay cut.

To protect domestic jobs, U.S. labor activists are pushing to limit the number of H-1B and L-1 visas granted to foreign workers. That would make it harder for offshore companies to have their employees working on site in the U.S. "Those programs were designed for a booming high-tech economy, not a busting high-tech economy," says Courtney of the Washington Alliance of Technology Workers. Courtney and his allies are starting to get the attention of lawmakers. Several congressional committees have held hearings on the impact of offshore outsourcing on the U.S. economy, and lawmakers in five states have introduced bills that would limit or forbid filling government contracts through offshore outsourcing.

Stephanie Moore, a vice president of Forrester Research, says companies are concerned about the backlash but mainly because of the negative publicity. "The retail industry is very hush-hush about its offshoring," she says. But within the boardroom, such outsourcing enjoys wide support. In a June survey of 1,000 firms by Gartner Research, 80% said the backlash would have no effect on their plans.

The advantages, businesses say, are just too great to ignore. They begin with cost but don't end there. Jennifer Cotteleer, vice president of Phase Forward, a Waltham, Mass., company that designs software for measuring clinical-trials data for drug companies, has for the past two years used offshore employees from Cognizant to customize the application for specific drug trials. Lately she has been relying on their expertise to develop even more-tailored programming. "I certainly couldn't have grown this fast without them," Cotteleer says. Her company is growing 30% annually, on track to reach $65 million in revenue this year. "What I've been able to do in very tough economic times is manage very directly to my margins," she says. "I'm providing job security for the workers I do have."

Creative use of offshore outsourcing, says Debashish Sinha of Gartner Research, offers benefits that outweigh the direct loss of jobs. In an economy that has shed 2 million jobs over two years, he contends, the 200,000 that have moved overseas are less significant than the potential for cost savings and strategic growth. But he concedes that "when you're a laid-off employee who can't find a job, that's hard to understand."

Perhaps some will follow the example of Dick Taggart, 41, of Old Greenwich, Conn. After 18 years in financial services, most recently at J.P. Morgan Chase, he now works for Progeon, an affiliate of the Indian outsourcing giant Infosys, as its man on Wall Street. One week out of every six or seven, he takes securities firms to India to show them the savings that are possible. He knows the transition is painful for the workers left behind, but he has seen it before. "It was the same thing when we moved from Wall Street to New Jersey and then to Dallas," he says. "Guess what? This is next."

Click to Print

Find this article at:
http://www.time.com/time/magazine/article/0,9171,471198,00.html

14044360490

US Fed News

You've already looked at this

LT. GOV. HALTER ELECTED REGIC IL LIEUTENANT GOVERNORS ASSOCIATION

295 words
29 July 2008
US Fed News
INDFED
English

BUFFALO, N.Y., July 29 -- Lt. Gov. **Bill Halter**, D-Ark., issued the following news release:

Arkansas Lieutenant Governor **Bill Halter** has been elected Southern Region Chair of the National Lieutenant Governors Association (NLGA). Halter was elected Southern Region Chair of the NLGA at the Association's annual meeting in Buffalo, New York.

"Lieutenant Governor Halter was selected by a bi-partisan group of his peers from every region on the nation as a leader among his colleagues," NLGA Executive Director Julia Hurst said.

"I am honored that my colleagues asked me to serve in NLGA leadership this year," Lieutenant Governor Halter said. "I look forward to working with them to continue the good work NLGA has done in the past and help direct the Association's attention toward important issues currently facing Arkansas and other states."

The NLGA was formed in 1962 and is the only professional association for elected officials who are first in line of succession to the Governors of the 50 states and five U.S. territories. The NLGA provides members an opportunity to network, discuss and work on issues of common interest, share best practices and foster interstate cooperation. The NLGA seeks to promote the effectiveness of the Office of Lieutenant Governor.

The Southern Region includes the states and territories of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia and West Virginia.

Bill Halter was elected Lieutenant Governor of Arkansas in 2006. As Arkansas' 14th Lieutenant Governor, **Bill Halter** is focused on education and **jobs**. He believes the state must develop a skilled work force to meet the challenges of a 21st century economy.

HTS jnjn 080813-1756086 HTODjain

Document INDFED0020080817e47l001rb

US Fed News

LT. GOV. HALTER APPLAUDS COMMUNITY COLLEGE GRADUATES IN DE QUEEN

161 words
10 May 2008
US Fed News
INDFED
English

14044360491

DE QUEEN, Ark., May 10 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Lieutenant Governor Bill Halter addressed the graduating classes at Cossatot Community College of the University of Arkansas in De Queen. He applauded the 142 students for earning associate of arts degrees, technical certificates, certificates of profiency or general education diplomas.

The Lieutenant Governor stressed the need for Arkansas to dramatically increase its percentage of adults with college degrees to compete for new industry and good jobs in an increasingly knowledge-based economy. His message complemented Chancellor Frank G. Adams description of Cossatot as "a college for the 21st Century."

Cossatot Community College, which is 8 miles east of the Oklahoma border in southwest Arkansas, was founded in 1975 as a vocational-technical school and joined the University of Arkansas System in 2001. Spring enrollment at Cossatot was 1,262.

HTS adad 080520-1557535 D-KumarAd

Document INDFED0020080525e45a001pw

1404430492

Associated Press

Arkansas lieutenant governor heads to China for summit organized by World Economic Forum

133 words
22 September 2008
12:36 PM
Associated Press Newswires
APRS
English

LITTLE ROCK, Ark. (AP) - Lt. Gov. Bill Halter heads to China this week to represent the state at a summit of business, government and media leaders.

Halter's office said Monday that the lieutenant governor arrives in China on Thursday for the second annual Meeting of the New Champions, organized by the World Economic Forum. The summit, held in the city of Tianjin, will bring together more than 1,500 participants from more than 80 countries.

Halter says he hopes to make contacts that will bring more high-tech jobs and businesses to the state. He will lead a discussion focusing on what industries will drive the nation's economic recovery.

Halter will return to Arkansas on Sept. 29.

7

Document APRS000020080922e49m000u0

AJS000087

Associated Press

Arkansas lieutenant governor heads to China for summit organized by World Economic Forum

133 words
22 September 2008
12:36 PM
Associated Press Newswires
APRS
English

LITTLE ROCK, Ark. (AP) - Lt. Gov. **Bill Halter** heads to China this week to represent the state at a summit of business, government and media leaders.

Halter's office said Monday that the lieutenant governor arrives in China on Thursday for the second annual Meeting of the New Champions, organized by the World Economic Forum. The summit, held in the city of Tianjin, will bring together more than 1,500 participants from more than 80 countries.

Halter says he hopes to make contacts that will bring more high-tech **jobs** and businesses to the state. He will lead a discussion focusing on what industries will drive the nation's economic recovery.

Halter will return to Arkansas on Sept. 29.

7

Document APRS000020080922e49m000u0

AJS000088

1404430040693

1404436049 4

US Fed News

FIRST YEAR IN OFFICE REFLECTED EMPHASIS ON EDUCATION, JOBS

709 words
22 January 2008
US Fed News
INDFED
English

LITTLE ROCK, Ark., Jan. 22 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Education and jobs. The two issues that formed the core of my campaign for Lieutenant Governor in 2006 also defined my first year in office.

In 2007, I had countless discussions with Arkansans about working together to expand educational opportunities for families and to lift our state from the bottom rungs of personal and household income.

The links between educational excellence and economic success are clear. A world-class higher-education opens the door to higher-paying jobs and to a better quality of life.

A better-educated workforce will help Arkansas attract new industry and better-paying jobs.

An individual with a bachelor's degree will earn nearly $1 million more, on average, over the course of a work life than someone with a high-school diploma, according to the U.S. Census Bureau.

Fortunately, the 86th General Assembly of the Arkansas Legislature took action early in 2007 to address some of our gaps in educational programs and funding. These initiatives included proposals that I had advanced during the campaign for Lieutenant Governor:

* Making pre-kindergarten programs universally available to at-risk children.

* Expanding the Career Pathways program from 11 to all 22 community colleges and doubling the funding available for people who qualify for this education and job-training program.

* Establishing a state fund to match the investments that low- and moderate-income families make to 529 college savings plans.

* Encouraging the development of biofuels to enhance our energy security and to help Arkansas farmers.

As Lieutenant Governor, I was both proud and humbled to preside over the state Senate during the legislative session. Just down a flight of steps, on the second floor of the state Capitol, I met privately with nearly every state legislator to share ideas and discuss policy issues. In most cases, the conversation eventually turned to two issues: Education and jobs.

One of my proposals for furthering this twin agenda fell one vote shy of clearing a House committee, but the effort to place a constitutional amendment establishing a Scholarship Lottery before Arkansas voters continues through a signature-petition drive led by the Hope for Arkansas Committee. The signature gathering is under way.

The Hope for Arkansas Committee must submit the names of more than 77,000 registered voters to the Arkansas Secretary of State's Office by July 7, 2008. As 2007 draws to a close, I am confident that the people will have the opportunity to decide the merits of this scholarship plan during the November 2008 general election. If approved, every dime of the net revenue - and first-year estimates are $100 million - will be dedicated to scholarships and

US Fed News

LT. GOV. HALTER TRAVELS TO CHINA FOR GLOBAL ECONOMIC SUMMIT

398 words
22 September 2008
US Fed News
INDFED
English

LITTLE ROCK, Ark., Sept. 22 – Lt. Gov. Bill Halter, D-Ark., issued the following **news release**:

Lieutenant Governor Bill Halter will represent Arkansas at an international summit of business, government and media leaders Thursday through Sunday in Tianjin, China.

The second Annual Meeting of the New Champions, organized by the World Economic Forum, will bring together more than 1,500 participants from over 80 countries.

"I am delighted for the opportunity to advance economic development in Arkansas by meeting these business leaders from around the world," Halter said. "As home to the world's largest retailer, the world's largest meat producer and world's largest rice miller, Arkansas already is an international player.

"One of our challenges is bringing more high-tech industry and high-growth enterprises to the state," Halter added. "My goal is to make contacts that move us further down the road."

The World Economic Forum is an independent international foundation dedicated to improving the state of the world by establishing partnerships to shape global, regional and industry agendas. The Geneva-based foundation has no ties to political, partisan or national interests, and is under the supervision of the government of Switzerland.

The Meeting of New Champions is also known as "Summer Davos," which is a reference to the annual winter meeting of the World Economic Forum in the resort village of Davos, Switzerland.

The participants at the Tianjin forum include chairmen and chief executive officers of some of the world's most-influential and fastest-growing companies; technology pioneers in the fields of energy, health care, biopharmaceutical research and communications technology; and educators and elected officials from fast-growing regions.

Halter will serve as a discussion leader for a Saturday session titled "Market Insight: North America," which will focus on what will signal a U.S. economic recovery and which industries will drive it.

The Lieutenant Governor has met with Maria Haley, executive director of the Arkansas Economic Development Commission, about his trip to China. They will meet again after Halter returns.

Halter is scheduled to arrive in the Chinese capital of Beijing on Thursday and will fly back to Arkansas on Monday, Sept. 29.

Tianjin is about 70 miles east of Beijing. The Meeting of Champions will take place at the Tianjin Binhai Convention and Exhibition Center.

HTS mkmk 080924-1668374 HTJmaKAUR

Document INDFED0020080924e49m0037n

Non-Traditional Students are Motivated to Succeed, Halter Says

487 words
21 July 2009
Targeted News Service
TARGNS
English

HEBER SPRINGS, Ark., July 21 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

14044360496

Lieutenant Governor Bill Halter said Tuesday that the fastest way for Arkansas to improve its competitive position in a 21st century economy is to provide adults who didn't finish college the opportunity to return to school and earn a degree.

"When they go back, I mean they bear down," Halter said of non-traditional adult students. "These folks know why they're there. They've experienced the alternative without a higher education and they frankly don't like it very much."

Halter led a public discussion on the Scholarship Lottery in the Entergy Room of Arkansas State University at Beebe-Heber Springs. Earlier, he spoke to the Heber Springs Rotary Club at McPherson's Restaurant.

"So many of our (Arkansas') issues in terms of economic development, in terms of health, in terms of our ability to secure industry are tied to doing better in education, and, specifically, in higher education, and that's what this (the Scholarship Lottery) is about," Halter said at the public forum. "It's about improving the access and affordability and ability of our students to access a higher education.

"So that's why we did it and, if we stay focused on that, I think this will be an improvement to help Arkansas compete for the jobs and the opportunities of the 21st century."

Currently, under the Arkansas Scholarship Lottery Act, non-traditional students will qualify for a lottery-funded scholarship if they have graduated from an Arkansas high school with a 2.5 grade point average or higher, scored a 19 or higher on the ACT college entrance exam, or completed 12 credit hours in college and achieved at least a 2.5 grade point average.

The Lieutenant Governor said he hoped to work with state legislators to make it simpler for non-traditional adult students to qualify for a college financial aid funded by the Arkansas Scholarship Act. Halter proposed providing a full-tuition scholarship for non-traditional students who want to go back to college part time and, if they achieve a 2.5 grade point average or higher, renewing the scholarship for their second year, and so on.

"They're motivated," Halter said of non-traditional students, adding that they are well worth the risk.

Act 606 of 2009, the Arkansas Scholarship Lottery Act, established the nation's first state lottery that devotes all net proceeds to college scholarships. Arkansas voters approved Amendment 3, authorizing the Scholarship Lottery, in the November 2008 General Election.

"It feels good to me to see that the state actually has done something big, took a risk, voted almost 2 to 1 to do this," the Lieutenant Governor said. "The people decided, now let's go implement this."

TNS PA-JF78-090724-2346171 StaffFurigay

Document TARGNS0020090724e57l0020n

AJS000091

Lieutenant Governor Travelling to China to Promote Arkansas Economic Interests

895 words
20 August 2009
Targeted News Service
TARGNS
English

LITTLE ROCK, Ark., Aug. 20 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Lieutenant Governor Bill Halter will promote Arkansas economic interests while in China next week as part of an economic development mission coordinated by the National Lieutenant Governors Association (NLGA).

"I'm going to China with one overriding purpose, which is to help Arkansas farmers and businesses access one of the world's largest markets," Halter said. "Meetings are set with Chinese government officials and business executives to discuss existing and potential market opportunities for Arkansans. China has more than 1.3 billion consumers, more than four times the U.S. population. Arkansas needs our share of that market."

The Lieutenant Governor is scheduled to visit a Wal-Mart store Monday morning in Beijing. He is scheduled to leave for China on Saturday morning, arrive in the Chinese capital on Sunday and return to Little Rock on Saturday, Aug. 30.

In preparing for the trip, Halter spoke with the presidents of international operations for both Bentonville-based Wal-Mart Stores and Springdale-based Tyson Foods as well as with the presidents and chief executives of Little Rock-based Acxiom Corporation, Fort Smith-based Baldor Electric Company, the Arkansas Farm Bureau, the Arkansas Rice Growers Association and the Rogers-based Arkansas World Trade Center, which works to promote international trade throughout the state and region.

"China already provides a significant market for Arkansas soybeans and cotton production," said Randy Veach of Manila (Mississippi County), president of the Arkansas Farm Bureau. "Going forward, the Chinese market presents potentially very large opportunities for Arkansas rice growers, beef producers and poultry producers. We commend Lieutenant Governor Halter for his work in expanding opportunities for Arkansas farmers during his trip to China."

Arkansas is the nation's largest rice-growing state, accounting for roughly 50 percent of the U.S. crop.

"The opening of the Chinese market to U.S. rice would open up the largest single consumer market in the world to Arkansas producers," said Greg Yielding of North Little Rock, executive director of the Arkansas Rice Growers Association. "It will be a value-added profitable market benefiting the entire U.S. rice industry."

Yielding surveyed Chinese grocery store customers about what kind of rice they liked during a visit to Shanghai in June. He sees an opportunity, especially among China's growing base of middle- and upper-income consumers, whom he believes would be willing to pay a premium for the higher-quality, long-grain rice grown in the United States.

Wal-Mart, the world's largest retailer, opened a Supercenter and Sam's Club in Shenzhen, China, in 1996, according to the company's China Fact Sheet. Wal-Mart currently operates 256 retail units in China, including 144 Supercenters and 104 Trust-Mart Hypermarkets. Wal-Mart purchased a 35 percent stake in Trust-Mart in 2007. The Arkansas retail giant employs 54,443 people in China and Trust-Mart has another 36,086 employees, according to the Fact Sheet.

Tyson Foods, the world's largest meat producer, has been exporting chicken to China since 1989. Tyson Fresh

1404436049 8

Another Trip to Wal-Mart ... This Time in China

330 words
24 August 2009
Targeted News Service
TARGNS
English

BEIJING, China, Aug. 24 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Lieutenant Governor Bill Halter toured a Wal-Mart in Beijing this morning, accompanied by representatives of Wal-Mart China. Wal-Mart associates at the Supercenter greeted the Lieutenant Governor with a song and cheer, after which he joined them in front of the store behind a Wal-Mart banner.

Wal-Mart is the world's largest retailer. The Bentonville-based retailer operates 256 retail units in China, including 144 Supercenters and 104 Trust-Mart Hypermarkets. Wal-Mart employs 54,443 people in China and Trust-Mart has another 36,086 employees.

Earlier Monday morning, the Lieutenant Governor met with the Arkansas Economic Development Commission's consultants in China to discuss the current political and economic condition in the country. After the Wal-Mart tour, the Lieutenant Governor and others in the National Lieutenant Governors Association delegation visited the Great Wall of China and the Olympic Venue for the 2008 Summer Games.

The Lieutenant Governor is staying at the Park Hyatt during the Beijing leg of this weeklong trip. He is in China to promote Arkansas economic interests as part of an economic development mission coordinated by the National Lieutenant Governors Association (NLGA).

On Tuesday, Lieutenant Governor Halter's day will begin with an agricultural and trade briefing at the U.S. Embassy in Beijing. The focus will be on corn, soybeans and livestock, as well as a discussion on trade prospects for Arkansas rice. Later, the lieutenant governors will visit an engine-manufacturing plant that is a 50-50 joint venture of an American and Chinese company.

The lieutenant governors of Arkansas, Idaho, Minnesota, Mississippi, Montana, and North Dakota are on the economic development mission, along with the Puerto Rico secretary of state. The Chinese People's Association for Friendship with Foreign Countries is paying all trip expenses.

TNS PA-PA 090826-2376065 61PoojaAnand

Document TARGNS0020090826e58o001v5

AJS000093

1404435604909

Halter Urges Chinese Official to Expand Markets for Arkansas Products

344 words
25 August 2009
Targeted News Service
TARGNS
English

BEIJING, China, Aug. 25 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Arkansas Lieutenant Governor Bill Halter expressed his concerns to Vice Minister of Foreign Affairs Zhang Zhijun about China's restrictions on Arkansas-produced poultry and rice. He spoke with the vice minister, whose position is equivalent to the U.S. deputy secretary of state, about expanding market opportunities for Arkansas rice farmers and poultry producers during a meeting at the Chinese Foreign Ministry Building.

Just prior to this meeting, Halter and six other lieutenant governors from the United States met with U.S. Embassy staff in Beijing to discuss agricultural and other trade topics. China's market is the third-largest export market for Arkansas products, after Canada and Mexico. Our state exported $320 million worth of Arkansas products to China in 2008, a tenfold increase from 2000.

"While there are terrific market opportunities for Arkansas products, there are two markets that are closed to Arkansas exports currently," Halter said. "The first is poultry products produced in Arkansas, which are currently banned in the Chinese market due to a concern about Avian flu; the second product that is not imported into China from Arkansas is Arkansas-produced rice."

After a boxed lunch served aboard a bus traveling through Beijing, the lieutenant governors toured the Beijing Foton Cummins Engine Company plant. This Fortune 500 Company is a 50-50 venture of Columbus, Indiana-based Cummins Inc. and China's Beiqui Foton Motor Company. The company produces diesel engines in China at the rate of roughly 400,000 a year.

Lieutenant Governor Halter is in China to promote Arkansas economic interests as part of an economic development mission coordinated by the National Lieutenant Governors Association (NLGA). On Wednesday, the lieutenant governors are scheduled to meet with China's minister of construction and assistant minister of commerce. They are to have lunch in a Beijing art before visiting the Forbidden City and Tiananmen Square.

TNS PA-PA 090826-2376060 61PoojaAnand

Document TARGNS0020090826e58p001vf

Leader of China's Largest Province Enthusiastic About Arkansas

324 words
27 August 2009
Targeted News Service
TARGNS
English

ZHENGZHOU, China, Aug. 27 -- Lt. Gov. Bill Halter, D-Ark., issued the following **news release**:

Bill Halter and five other visiting lieutenant governors met today with the senior leader of China's Henan Province, the country's largest by population with 100 million residents. During their discussion, "Party Secretary Xu Guangchun expressed great enthusiasm about deepening business relationships with Arkansas," Halter said.

"Henan is, in essence, the first province in terms of Chinese history," Halter noted. "This is where China's capital was for the first 3,000 years of its history. Today it has significant agricultural and industrial operations, and serves as a transportation hub within China."

Establishing greater market access to China for Arkansas products, notably rice and poultry, has been a staple of Halter's discussions this week with Chinese officials. He also has talked with China's vice minister for foreign affairs and the assistant minister of commerce.

Secretary Xu (pronounced shoo) is a former journalist and has authored several books, including "Philosophy and Journalism" and an award-winning book of photography.

Also Thursday, the NLGA contingent visited the historic Shaolin Temple in the city of Dengfeng, where they witnessed a martial arts demonstration. Founded in the 5th century, this Buddhist monastery is perhaps best known to the Western world as the birthplace of Kung Fu.

The lieutenant governors have been in China all week on an economic development mission arranged by the National Lieutenant Governors Association (NLGA). Their hosts are the Chinese People's Association for Friendship with Foreign Countries.

Friday's schedule includes a visit to a local farm, a tour of a bus factory and meeting with the mayor of Zhengzhou, population 7.5 million, or nearly twice the size of Los Angeles. The lieutenant governors are scheduled to fly back to China's capital city, Beijing, on Friday night.

TNS PA-PA 090828-2377983 61PoojaAnand

Document TARGNS0020090828e58r0002w

China's Largest Province Wants Commercial, Cultural Ties with Arkansas

675 words
31 August 2009
Targeted News Service
TARGNS
English

LITTLE ROCK, Ark., Aug. 31 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Lieutenant Governor Bill Halter today announced that the state of Arkansas and China's most populous province, Henan Province, have signed a letter of intent to promote common business interests and generate trade and investment opportunities.

Halter and Feng Yongchen, director-general of the Foreign and Overseas Chinese Affairs Office of the People's Government of Henan Province, signed English and Chinese versions of the letter while Halter was in the provincial capital of Zhengzhou, China, on Friday as part of an economic development mission arranged by the National Lieutenant Governors Association (NLGA).

"Government officials I met with during our two days in Zhengzhou repeatedly expressed their excitement about formalizing a commercial relationship and developing a cultural exchange with Arkansas," Halter said. "I am pleased to return with a document that reflects their interest and enthusiasm. This is an exciting opportunity for Arkansas, especially our farmers and businesses."

The letter of intent establishing a "friendly-exchange relationship" between Henan Province and the state of Arkansas reads, in part:

"The two sides will carry out, based on principles of equality and mutual benefit, exchanges and cooperation of various forms in the fields of economy, trade, science and technology, culture, education, sports, health and qualified personnel ... to promote common development.

"Regular contacts shall be maintained between the leaders of both governments and relevant departments of both sides to facilitate consultations on the issues of exchanges and cooperation as well as matters of common concern."

China is Arkansas' third-largest export market, behind Canada and Mexico. Currently, China effectively bans imports of U.S. rice and Arkansas-based poultry. Halter encouraged Chinese removal of these trade restrictions last week in discussions with China's vice minister of foreign affairs, the assistant minister of commerce and Henan Province Party Secretary Xu Guangchun.

"Secretary Xu expressed great enthusiasm about deepening business relationships with Arkansas," Halter said.

Located in east-central China, Henan is China's largest province by population, with 100 million residents. If Henan were a country, it would be the world's 12th largest behind Mexico.

Henan has long been a political, economic and cultural base in China as well as the pivot point of transportation in all directions for a country of more than 1.3 billion people. Historically, more than 20 dynasties initially established or later moved their capitals to Henan Province. Of China's 8 major ancient capitals, 4 are located there. The province also is home Shaolin Temple, a 5th century Buddhist monastery best known to the Western world for its association with Chinese martial arts, including Shaolin Kung Fu.

Signs of Henan's vigorous economy are evident in its capital of Zhengzhou, where ongoing construction of modern buildings and new roads, is giving this city of 7.5 million people a virtual facelift.

Lieutenant Governor Halter Renews 'Friendly Exchange,' Looks to Future with Chinese Foreign Minister

413 words
22 October 2009
Targeted News Service
TARGNS
English

LITTLE ROCK, Ark., Oct. 22 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Lieutenant Governor Bill Halter and a Chinese foreign minister renewed their discussions Thursday about advancing commercial, cultural and educational exchanges between China's largest province and the state of Arkansas.

Halter and Feng Yongchen, director-general of the Foreign Affairs Office of the People's Government of Henan Province, first met last August in Zhengzhou, Henan's capital city, where they co-signed a letter of intent establishing a "friendly-exchange relationship" between Arkansas and Henan.

"Today marked another step toward strengthening ties with China, which is Arkansas's third largest trading partner, and maintaining communications with representatives of a province that is home to 100 million people," Halter said. "Increased market opportunities and expanded market access to China, particularly for Arkansas poultry and Arkansas rice, again were prime topics of discussion ... just as they were when I was in China.

"Director Feng remains enthusiastic about developing trade and investment opportunities between Henan Province and Arkansas," Halter added.

"We have first of all to know each other to have further cooperation and to promote our friendship with one each another," Mr. Feng told the Lieutenant Governor at a breakfast meeting. "I want to make good use of the day here so I will know more about Arkansas."

Mr. Feng was part of a three-person delegation from Henan who arrived in Little Rock on Wednesday night and spent Thursday visiting with Arkansas state economic development officials as well as business and agricultural leaders. The trio also was scheduled to tour the William J. Clinton Presidential Center.

Accompanying Mr. Feng were Lee Guosheng, director of the Euro and American Division of the Foreign Office in Henan, and Yan Jingwei, interpreter for the Euro and American Division of the Henan office.

"Arkansas has significant economic interests in China and there is tremendous potential for an expanded presence," Halter said. "My hope is that we will soon see students, teachers, farmers and business executives from Arkansas visiting Henan and from Henan visiting Arkansas. That would create a healthy environment for economic growth and development."

Henan Province has long been a political, economic and cultural base in China as well as the pivot point of transportation in all directions for a country of more than 1.3 billion people.

TNS PA-PA 091023-2445153 61PoojaAnand

Document TARGNS0020091023e5am001ml

Halter Sees Higher Education, Training, Skills as Keys to Global Marketplace

585 words
14 January 2010
Targeted News Service
TARGNS
English

LITTLE ROCK, Ark., Jan. 14 -- Lt. Gov. Bill Halter, D-Ark., issued the following news release:

Lieutenant Governor Bill Halter said Thursday that Arkansas needs a highly skilled, highly trained, well-educated work force to compete in the global economy

"We're not competing with just Mississippi or Oklahoma any more. We're competing literally all around the globe," Halter told several hundred local and state officials gathered for the Arkansas Municipal League Winter Conference in Little Rock.

"Companies now that make big investment decisions ... are comparing places in Arkansas with places in India in making those decisions," Halter said. "Our best way to compete in that environment is to compete based on the training and skill level of our work force and not to compete with lower wages. If we compete with lower wages, we can't possibly move ahead as a state."

The Lieutenant Governor spoke at the Municipal League's Voluntary Community of the Year Award Luncheon in the Peabody Ballroom of the Statehouse Convention Center.

Addressing the purpose of the luncheon, Halter related his firsthand experience with volunteer activity when more than 1,200 Arkansans turned out on a "Razorback Saturday" in November to help provide basic medical care for other Arkansans during the Free Health Clinic - also at the Statehouse Convention Center.

"I don't know any place that could have done that faster with more enthusiasm. I don't know of any state in the country where the folks who were asked to help would have poured in the way than your fellow Arkansans did," the Lieutenant Governor said, adding that the Saturday the clinic was held also was the first day of duck-hunting season.

Halter drew applause when he informed his audience that Arkansas Scholarship Lottery Director Ernie Passailaigue had recently revised his revenue estimate upward.

"He (Passailaigue) believes that in the first 12 months of the lottery's operation, it will produce $112 million for Arkansas students to go to Arkansas schools," Halter said, after noting this was no secret because the statewide newspaper was aware of the revised forecast. "That will more than triple what spend from the state government budget for scholarships for our students."

Halter observed that Arkansas, along with the rest of the country, was facing the toughest economic times in decades - with families digging deep in hopes of finding the funding they need to send their children to college.

In light of that, he said, "We need to come together as a state around the idea, around the principle, around a one-sentence mission statement that every Arkansans who works hard and plays by the rules ought to have the opportunity for a higher education."

Beginning in August, Halter said, he believes Arkansans who qualify for the new lottery-funded scholarships will wind up with $5,000 a year in financial assistance if enrolled at a four-year university in Arkansas and $2,500 a year if enrolled at a two-year college in the state.

Halter: Ark. may see inroads to China's consumers

By The Associated Press

This article was originally published August 31, 2009 at 2:53 p.m. Updated August 31, 2009 at 5:01 p.m.

Lt. Gov. Bill Halter said Monday that he signed an agreement with one of China's most populous provinces that could help Arkansas sell products to a country expected to become the world's largest consumer market.

Halter returned Saturday from a weeklong trip to China with a group of lieutenant governors from several other U.S. states. On Monday, he said he signed a letter of intent on Arkansas' behalf with top officials of Henan province, located south of Beijing and west of Shanghai. He said the letter commits Arkansas and Henan to work to improve relations, though it contains no formal plans.

Asked whether he expected the letter of intent to be mostly symbolic or result in real economic gains for Arkansas, Halter declined to speculate.

"You can never say how these relationships are going to pan out," he said.

Henan is home to nearly 94 million of China's 1.3 billion residents, making it the country's third most populous province. It has 2 1/2 times California's population - and about 32 times Arkansas' population.

Halter said Henan, like Arkansas, has major agriculture and manufacturing components to its economy and is a distribution hub because of its central location.

"This (agreement) has the potential to provide Arkansas with greater access to the China market," Halter said.

Arkansas-based companies including Wal-Mart and Tyson Foods are already active trading partners with China, Halter said. State exports to China amounted to about $320 million last year, he said.

China's population also offers great potential to livestock producers in Arkansas, Halter said.

He acknowledged that China doesn't currently allow imports of poultry products from Arkansas under a ban that stems from concerns about avian flu following a spike in the disease a few years ago. But he said Tyson sells poultry in China that was produced in other U.S. states.

Arkansas is the largest rice-producing state in the U.S., but sells no rice to China. Although China is the world's largest consumer of rice, it also is its largest producer.

MOST DISCUSSED STOR

Petrino in stable condition following accident (17 comments)

Arkansas surgeon general arrested a comments)

Mass layoffs at an all-time high in Ar comments)

Bill Clinton: Obama can argue he ste economy (13 comments)

Recycling program kicks off in LR to

"The rice issue is more complicated (than the poultry ban) and will take a longer time to resolve ... because of the important role of rice in the Chinese diet," he said when asked about the commodity.

He said the formal agreement was "the beginning of a process to create concrete relations."

The next step, he said, would be visits by an Arkansas delegation to Henan, and a visit by Henan representatives to Arkansas.

Halter said Henan also has a sister-state relationship with Kansas.

More *Arkansas*

Authorities arrest Cabot man for assaulting 2...
Two arrested in motor thefts
Arkansas surgeon general arrested at his home
UCA board approves Aramark contract extension
Rogers police investigate shooting
Sen. Pryor to receive Bumpers leadership awar...
Police look for veteran's artifacts
Petrino in stable condition following motorcy...
Recycling program kicks off in LR today
More Arkansas stories ≥

Comments on: Halter: Ark. may see inroads to China's consumers

To report abuse or misuse of this area please hit the "Suggest Removal" link in the comment to alert our online managers. Read our Terms of Use policy.

You must login to make comments. Login | Register | Subscribe Now

William A. Halter Is Elected to webMethods' Board of Directors Former Deputy Commissioner of Social Security Administration and OMB Senior Advisor Adds Substantial Economics and Public Policy Experience to webMethods' Board

955 words
29 August 2003
08:00 AM
PR Newswire
PRN
English

FAIRFAX, Va., Aug. 29 /PRNewswire/ -- **webMethods**, Inc., the leading provider of integration software enabling Global Business Visibility(TM), today announced that William A. **Halter** was elected to the company's board of directors at the 2003 annual meeting of stockholders. Mr. **Halter** is the former Deputy Commissioner and Acting Commissioner of the Social Security Administration (SSA) and previously served as a Senior Advisor in the U.S. Office of Management and Budget, Executive Office of the President. Mr. **Halter** will bring significant knowledge and experience in the public sector, as well as his background in management consulting, to the **webMethods** board.

Mr. **Halter** has extensive experience with the public sector. As the Acting Commissioner and Deputy Commissioner of the Social Security Administration, he was responsible for the overall operation and direction of one of the largest financial services organizations in the world. Prior to his role at SSA, Mr. **Halter** held high profile advisor positions in the Clinton Administration, serving as Senior Advisor, Director's Office, Office of Management and Budget, Executive Office of the President, and as Senior Policy Advisor to the Clinton/Gore 1992 campaign. Mr. **Halter** also held the positions of Chief Economist to the United States Senate Committee on Finance and Economist for the Joint Economic Committee of Congress.

"Bill's wealth of experience in economics and public policy make him an ideal choice for **webMethods**' board of directors," said Phillip Merrick, chairman and CEO, **webMethods**, Inc. "As we continue to look to the public sector as a tremendous growth area, his background in that market can help us to strengthen the ties that drive our business. We welcome him to our board and look forward to a fruitful relationship."

In the past several years, Mr. **Halter** has served on the boards of market- leading companies and one of the nation's top universities. He currently serves as a member of the board of directors for Akamai Technologies, Inc and InterMune, Inc. Previously, Mr. **Halter** held a board position with FirstGov. Mr. **Halter** is actively involved with Stanford University, having served on its Board of Trustees for seven years and chairing the Academic Policy, Planning and Management Committee. He is also a member of Stanford University's Humanities and Sciences Council and of the Advisory Council for the Stanford University Libraries and Academic Information Resources. Previously he served on the National Advisory Board of Stanford University's Haas Center for Public Service.

"**webMethods**' ability to maintain a solid, healthy business despite the difficult economic environment is a tribute to the company's business acumen and a testament to the importance of its software to the world's leading organizations," said William A. **Halter**. "I look forward to working closely with the company and providing whatever guidance I can to help further its growth."

A Rhodes Scholar at Oxford University, Mr. **Halter** has taught university classes on economics and public policy for Stanford University.

R. James Green and Robin Vasan were re-elected to the **webMethods**' board at the 2003 annual meeting of stockholders, and the stockholders ratified the selection of PricewaterhouseCoopers LLP as independent public accountants to webMethods for its current fiscal year.

About webMethods, Inc.

As the leading independent provider of integration software, webMethods, Inc. delivers the industry's most comprehensive platform for enterprise-wide integration, including complete support for Enterprise Web Services. The webMethods Integration Platform allows customers to achieve quantifiable R.O.I. by linking business processes, enterprise and legacy applications, databases, Web services and workflows both within and across enterprises. Through this seamless flow of information, companies can reduce costs, create new revenue opportunities, strengthen relationships with customers, substantially increase supply chain efficiencies and streamline internal business processes.

Founded in 1996, webMethods is headquartered in Fairfax, Va., with offices throughout the U.S., Europe and Asia Pacific. webMethods has more than 950 customers worldwide including Global 2000 leaders such as Bank of America, Citibank, Dell, Eastman Chemical, Grainger, and Motorola. webMethods' strategic partners include Accenture, AMS, BearingPoint, BMC Software, BroadVision, Cap Gemini Ernst & Young, CSC, Deloitte Consulting, EDS, HP, i2 Technologies, J.D. Edwards, SAP AG, Siebel Systems and TCS. More information about the company can be found at http://www.webmethods.com/ [http://www.webmethods.com/].

webMethods is a registered trademark, and Global Business Visibility is a trademark, of webMethods, Inc. in the USA and certain other countries. All other company and product names are the property of their respective owners.

This press release may contain various remarks about the future expectations, plans and prospects of webMethods that constitute forward- looking statements for purposes of the safe harbor provisions of U.S. securities laws. The actual results of webMethods may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed under the heading "Factors That May Affect Future Operating Results" in the Business section of webMethods' Form 10-K for the year ended March 31, 2003, and in the "Management's Discussion and Analysis" section of webMethods' Form 10-Q for the quarter ended June 30, 2003, which are on file with the U.S. Securities and Exchange Commission and may be accessed at http://www.sec.gov/ [http://www.sec.gov/] or webMethods' investor relations webpage at http://www.webmethods.com/ [http://www.webmethods.com/]. webMethods disclaims any obligation to update or correct any forward-looking statements made herein due to the occurrence of events after the issuance of this press release.

Web site: http://www.webmethods.com/ [http://www.webmethods.com/]

CONTACT: Sarah Welz of webMethods, Inc., +1-703-251-3207, or sarah.welz@webmethods.com

Document PRN0000020030829dz8t001s2

The Washington Post

Financial

WebMethods Names New Finance Chief; Hiring Follows Spate of Departures [Corrected 3 January 2007]

Kim Hart
Washington Post Staff Writer
448 words
21 December 2006
The Washington Post
WP
FINAL
D04
English

PUBLISHED CORRECTIONS: A Dec. 21 article about **WebMethods** Inc. incorrectly said that the company has outsourced all research-and-development personnel. The company recently bought a company located in India but maintains most of its development staff in the United States. (Published 12/22/2006)

WebMethods announced yesterday that it has chosen a new chief financial officer, its first major first hire after a two-year exodus of top managers and recent disappointing earnings.

The appointment of Ken Sexton, who will also become the Fairfax software company's executive vice president and treasurer when he starts the job Jan. 2, comes six weeks after the resignation of **WebMethods**' chief operating officer, Richard Chiarello, and the company's second straight quarterly loss.

WebMethods, which sells software that integrates multiple business applications in computer systems, has struggled with accounting problems and inconsistent sales over the past four years. It lost $4.1 million in the quarter ended Sept. 30, compared with a profit of $2.6 million during the comparable period a year ago.

Eleven top-level managers have left the company since 2004.

"Clearly, we need to improve our execution, and we've taken immediate steps to do so," chief executive David Mitchell said in a November press release accompanying the company's financial report.

Hiring Ken Sexton was one such step in the right direction, said Deborah Rosen, **WebMethods**' executive vice president of marketing.

"This is a textbook case of how you replace a CFO," she said. Sexton "has the right profile -- someone who's been working as a CFO in the software industry for a long time."

Sexton was most recently finance chief of Infor, a private software company. Before joining Infor, he served as finance chief for three other publicly traded software firms.

Although Sexton's experience involves helping struggling companies rebound, analysts say his work at **WebMethods** will not be solely focused on financials.

"They weren't shopping for someone who is a turnaround expert," said Gregg Moskowitz, an analyst with Susquehanna Financial Group.

Even with new leadership in place, the company's greatest challenge is to improve sales and market its latest products.

The company plans to make major changes to its sales department after the departure of Chiarello, who also was head of global sales.

Meanwhile, the company is going into cost-cutting mode. Management expects to save $2 million by the end of March by slashing facilities and personnel expenses. It has already outsourced all of its research-and-development efforts to India through recent acquisitions.

http://www.washingtonpost.com [http://www.washingtonpost.com]

WP20061221WEBMETHODS21

Document WP00000020061221e2cl00049

Jasinowski, Mitchell and Mullarkey Reelected to webMethods' Board of Directors at the 2005 Annual Meeting of Stockholders

329 words
6 September 2005
08:00 AM
PR Newswire (U.S.)
PRN
English

FAIRFAX, Va., Sept. 6 /PRNewswire/ -- webMethods Inc., a leading business integration and optimization software company, today announced that Jerry J. Jasinowski, David Mitchell and Vincent J. Mullarkey were reelected to the company's board of directors by over 99% of the shares voting at webMethods' 2005 annual meeting of stockholders. Mr. Mitchell is webMethods' President and Chief Executive Officer, and Mr. Jasinowski and Mr. Mullarkey serve as independent directors of webMethods. Each was elected to a three-year term. Other members of webMethods' Board include James P. Gauer, R. James Green, William A. Halter, Jack L. Lewis, Gene Riechers and Bill Russell.

Stockholders also ratified the selection of PricewaterhouseCoopers LLP as the registered independent public accounting firm for webMethods for the fiscal year ending March 31, 2006. That action was also by over 99% of the shares voting at webMethods' 2005 annual meeting of stockholders. PricewaterhouseCoopers LLP has audited webMethods' financial statements since the company's inception in 1996.

About webMethods, Inc.

webMethods provides business integration software to integrate, assemble and optimize available IT assets to drive business process productivity. webMethods delivers an innovative, enterprise-class business integration platform that incorporates proven integration technology with next generation capabilities into one interoperable set of tools that delivers a unique combination of efficiency, agility and control. webMethods combines industry leadership with a zealous commitment to customers to deliver tangible business value to more than 1,300 global customers. webMethods is headquartered in Fairfax, Va., with offices throughout the U.S., Europe, Asia Pacific and Japan. More information about the company can be found at http://www.webmethods.com/ [http://www.webmethods.com/].

The webMethods name and logo are registered trademarks of webMethods, Inc. All other marks mentioned are trademarks or service marks of their respective companies.

Web site: http://www.webmethods.com/ [http://www.webmethods.com/]

CONTACT: John Conley of webMethods Inc., +1-703-460-5996, orjohn.conley@webmethods.com

Document PRN0000020050906e196002yd

AJS000105

0150034404

Q1 2006 webMethods, Inc. Earnings Conference Call - Final

7413 words
1 August 2005
FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: I will be your conference facilitator. At this time I would like to welcome to **webMethods** fiscal first quarter earnings release conference call. [OPERATOR INSTRUCTIONS] After the speakers' remarks there will be a question and answer period. At this time I'd like to introduce our host, Christopher Martin, Vice President of Investor Relations. Please go ahead sir.

CHRISTOPHER MARTIN, VP IR, **WEBMETHODS**, INC.: Thank you operator. Good afternoon everyone and thank you for joining us. My name is Christopher Martin, Vice President Investor Relations at **webMethods**. The purpose of today's Webcast to discuss our first quarter fiscal year 2006 financial results. Joining me today are David Mitchell, our President and CEO, and Mark Wabschall, our Chief Accounting Officer. Rich Chiarello, our EVP of Operations, will also be joining us for the question and answer portion of today's call. The press release we issued this afternoon regarding our results is available on our Website. That is www.webmethods.com (http://www.webmethods.com). Our press release and our Form 8-K have also been filed with the Securities and Exchange Commission.

Before we begin, please note that this conference call is being broadcast over the phone and via live Webcast open to all interested parties. This call is being recorded and will be available for replay on our Website or by dialing the following numbers; 1-800-642-1687 in North America and 1-706-645-9291 outside of North America. The confirmation number is 7783540. And the conference call replay is available through August 5. As we will provide non-GAAP financial information in this call, please refer to our earnings release for a reconciliation of that information to GAAP measures and explanations and cautions on the use of non-GAAP information.

During the course of this conference call management may make comments, which are forward-looking in nature. These comments are intended to be forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These projections and other forward-looking statements regarding expectations, may include comments regarding future business and financial metrics, our pipeline, future cost savings and expense levels, cost of investigations, legal compliance matters or internal control matters, anticipated results of marketing and selling models and expectations of future financial performance including, total end license revenue, future profitability, margins, anticipated charges, net loss, loss per share and pro forma results per share. Which are subject to various risks and uncertainties that are on file on with the SEC and available electronically through EDGAR or [E-Links] on our Investor Relations Website. These forward-looking statements should not be viewed as a guarantee of or a committment to any actual results. And our actual performance may differ materially from those measures indidated in our forward-looking statements.

These statements reflect the beliefs of management based on information available to us on August 1, 2005. And **webMethods** does not undertake any obligation to update or correct any forward-looking statements due to the occurrence of events after this call. I would now like to turn the call over to David Mitchell, **webMethods** President and CEO. David?

DAVID MITCHELL, CEO, PRESIDENT, COO, **WEBMETHODS**, INC.: Thank you Chris. Good afternoon everyone and thank you for joining us. On July 5, we shared with you our first quarter fiscal year 2006 preliminary results. At that time we expected our Q1 revenues to be approximately $47 to $48 million. Today we are reporting total revenue in Q1 of $47.7 million, representing a 14% increase over last year's first quarter. This increase was primarily driven by new license revenue, which grew 25% year over year. On July 5 we said we expected a GAAP loss of approximately $0.04 to $0.02 per share. Our final Q1 GAAP results were a loss of $0.01 per share. This is a significant improvement from our GAAP loss of $0.20 per share in last year's Q1.

On July 5 we expected pro forma results for Q1 within the range of a loss of $0.01 per share to a profit of $0.01 per share. We are pleased that we are reporting a profit for Q1 of $0.01 per share. This represents a significant improvement versus last year when we posted a Q1 pro forma loss of $0.18 per share. Please refer to our earnings release concerning the calculation of pro forma results and related information. These results represent the first time webMethods has generated a pro forma profit in our fiscal first quarter and signifies the fourth consecutive quarter of pro forma profitability.

It is worthwhile to note, that we have shown consistent improvement every quarter in each of the last four quarters on a year over year basis in both our GAAP and pro forma results. And as our first fiscal quarter has historically been our most challenging quarter, this significant accomplishment demonstrates our commitment to running a profitable business. We've significantly reduced our overall operating expenses and we will continue to execute on gaining operational efficiencies and licensed growth as we work our way to increasing our operating margins. As I have said in the past, one of my primary objectives is to get this Company to double-digit operating leverage by the end of our fiscal year. From a geographical perspective North America showed both year over year and sequential improvement in revenue. Driven in part by the strength of our government business, which represented approximately 20% of Q1 bookings.

We recently announced the hiring a new manager to run our government business with the expectation that we could drive greater returns from this market segment. Given that the September quarter is traditionally stronger for our government business, our expectation is that we will have another great quarter in this vertical. As we mentioned on July 5, the strength that we saw North America was offset by moderate short falls versus our original expectations across parts of Europe and Japan. In general Europe's economy is not improving as quickly as that of the U.S. We believe while there may have been some impact due to economic issues we had some execution challenges.

Overall, the shortfall in EMEA was moderate and given the previous two strong quarters in that region I am very pleased with the effort of the entire EMEA team. As you know, we are heading into the seasonally slow summer months for that region. We are not expecting to see any substantial improvement out of EMEA -- the EMEA region in the September quarter. But we do expect gradual improvement throughout the remainder of our fiscal year.

With regard to our Asia-Pacific business; our Japanese business is taking a little longer to recover than we had originally expected. This was offset by as a positive performance in the Australia/New Zealand region, where we reported a significant year over year improvement. As a part of our effort to improve the entire region's improvement we have hired Andy Wilkinson as General Manager of the Asia-Pacific/Japan region. Andy brings with him more than 20 years of proven success in the IT industry and a track record of success in expanding into new markets. While working with at companies as IBM, Peregrin Systems and the Advantage Group. We look forward to him guiding and expanding our Asia-Pacific/Japan business, which is an important part of webMethods growth strategy. This is a newly created position and one we believe is necessary in order to generate the desired return on investment we expect to achieve from the entire Asia-Pacific/Japan region. With that, I will now turn the call over to Mark for a more detailed look at our financial performance in the quador. Mark?

MARK WABSCHALL, PRINCIPAL FINANCIAL OFFICER, PRINCIPAL ACCOUNTING OFFICER AND SVP OF FIN., WEBMETHODS, INC.: Thanks, David. I will start by reviewing our standard financial information and metrics for our fiscal first quarter and then I will provide guidance for the second fiscal quarter. Total revenues for the first quarter where $47.7 million as compared to $52.9 million in the prior quarter and $41.9 million in the prior year's first quarter. This represents a 10% sequential decline and a 14% increase on a year over year basis.

We typically see a sequential decline following our traditionally strong fourth quarter due to seasonal factors and historical IT spending trends. However, our first quarter performance was better than what we have seen over the past couple of years. License revenues for the first quarter were 18.5 million, representing 39% of total revenue.

This compares to 22.1 million in the prior quarter and 14.8 million in the prior year's first quarter. And represents a 17% sequential decrease and a 25% year over year increase. The quarter's sequential decline from the fourth quarter was less than what we've seen over the past couple of years.

Professional services revenues were approximately $11.7 million as compared to 12.8 million in the prior quarter and 12.5 million in the prior year's first quarter. This represents an 8% sequential decrease and a 7% year over year decrease. This decline was primarily attributable to lower subcontractor revenue as we have either shifted more of this business to our own employees or to our system integration partners; which had a favorable impact on our service margin. Billable hours were also impacted by professional service employees attending training programs for webMethods Fabric 6.5, which was successfully launched during Q1.

Maintenance revenues were approximately $17.6 million as compared to approximately 18.0 million, in the prior quarter and 14.6 million in the prior year's quarter. This represents a 2% sequential decrease and a 20% year over year increase. As you may recall we mentioned on our May 2 conference call that we expected to see a sequential decline due to approximately $600 to $700,000 of true up items that were reflected in our fourth quarter maintenance revenue results. Americas revenues were $30.2 million. This is an 18% increase compared to last year's Q1 and equal to our revenue performance in Q4.

For the first time in the Company's history we have maintained a level of Americas revenues from the fourth quarter into our first quarter. As David mentioned earlier, this strength was driven in part by our Federal Government business, which represented approximately 20% of total Q1 bookings. International revenues were approximately $17.6 million or 37% of our total revenues. Revenues from EMEA were approximately $10.8 million, which is the highest level we have had in three years in a first quarter. This represents a 30% sequential decline and a year over year growth of 39%. The sequential decline was more pronounced this Q1 because EMEA had record revenues in the second half of last fiscal year.

Asia-Pacific revenues excluding Japan were $4.2 million. This represents a 4% sequential increase and a year over year increase of 10%. This was Asia-Pacific's strongest Q1 revenue performance since 2001. Japan revenues were $2.6 million, representing a 23% sequential decline and a 46% decline when compared to last year's Q1. We were disappointed with Japan's performance as our Japanese business is taking longer to recover from the problems we encountered earlier this calendar year. With the recent addition of Andy Wilkinson as General Manager of our Asia-Pacific and Japanese regions we expect to see a gradual improvement in Japan's performance throughout the rest of the fiscal year.

We closed four contracts in the quarter which were greater than $1 million. The largest transaction was in Europe and the other three were in the United States including one with the Internal Revenue Service. In addition, we closed another contract in the first quarter in excess of $1 million with the U.S. Government, which we deferred revenue recognition until July. No single customer represented 10% or more of our total revenue in the first quarter. Our average deal size of transactions over $100,000 was approximately 400,000, which compared to $350,000 in Q4 and Q1 of last year.

Approximately 60% of our bookings in the quarter were from existing customers including AVNET, Alcatel, Cable and Wireless, D'électricité De France, Hibernia National Bank and Selectron. After the more than 30 new customers during the quarter, which includes companies like Cax(ph) and Associates, ETrade Financial Corporation, By Serve(ph) Solutions, Genentech, Nokia and Western Power Corporation. Approximately 42% of our bookings in the quarter were influenced by our partners. Moving now to our gross margins, which exclude non-cash and other charges, we achieved total gross profit of approximately $34 million as compared to 38.2 million in the prior year quarter and 27 million in the prior year period. Gross margin was approximately 71% of total revenues as compared to 72% in the prior quarter and 64% in last year's Q1.

Services margins were 54% as compared to 52% in the prior quarter and 47% in the prior year period. The improving our services margin has been a focus of the Company and this quarter we achieved the highest service margins in the Company's history. Our pro forma operating expenses for the quarter were approximately $33.9

million, as compared to 38 million in the prior quarter and 37.2 million in last year's Q1. This represents a sequential decline of $4 million or 11%, and a year over year decline of 9%. It also represents the lowest total operating expenses at webMethods in five years. We were able to achieve this reduction through more disciplined cost controls and improved productivity.

We ended the first quarter with 807 employees, which compares to 833 at the end of Q4 and 836 a year ago. With respect to the specific line item operating expenses the results of the quarter are as follows; Sales and marketing expenses were $16.6 million, compared to 18.5 million in the prior quarter and 21.1 million in the prior year period. The sequential and year over year decreases were primarily due to lower headcount and reduced travel and consulting costs. Due to improved sales force productivity, we were able to achieve higher year over year license revenue with fewer headcount. We ended the quarter with approximately 75 quota bearing reps in line with what we told you on May 2.

14044360514

Research and development expenses were approximately $11.1 million, compared to 11.8 million in the prior quarter and 11 million in the prior year period. The sequential decrease was due primarily to a decrease in personnel. In the June quarter we consolidated our R&D operations in Boston with our R&D team in Bellevue, Washington. We also employ over 10% of our R&D staff in our India development center. We will continue leveraging the center to reduce our overall R&D costs as a percent of revenue.

G&A expenses were approximately $6.2 million compared to 7.7 million in the prior quarter and 5.1 million in the prior year period. The sequential decline was primarily due to less expense associated with the Japan matter and related restatements. The year over year increase was primarily due to higher auditing and consulting fees associated with Sarbanes-Oxley compliance. Excluding non-cash and other charges, this resulted in a first quarter pro forma operating income of $21,000 as compared to 211,000 in the prior quarter, and an operating loss of 10.2 million in the prior year period. This is the first time that webMethods has achieved positive operating income in the first quarter of a fiscal year.

On a GAAP basis, our operating loss for the first quarter was approximately $1.5 million, compared to a loss of 4.5 million in the prior quarter and 11.5 million in the prior year quarter. Included in the GAAP operating loss for the first quarter is $1.5 million of amortization of warrant charges, amortization of intangible assets and restructuring charges. This compares to 4.7 million in Q4, and 1.3 million a year ago. Net interest and other income in the first quarter was approximately $1.2 million. Our first quarter pro forma net income, after applying a pro forma 35% tax rate, was $764,000, or $0.01 per share. Which is higher than $579,000 or $0.01 per share reported in the fourth quarter and the loss of $9.6 million or a loss of $0.18 per share in the prior year quarter.

Our GAAP net loss for the first quarter was approximately $514,000 or a loss of $0.01 a share, as compared to a loss of $3.9 million in the prior quarter and a loss of 10.8 million or a loss of $0.20 per share in the prior year period. Our pro forma results for the first quarter include pro forma taxes of $412,000 and exclude $661,000 in warrant charges, 599,000 in amortization of acquisition related intangibles, and 288,000 in charges related to a restructuring cost. Today's earning press release contains further information on the calculation of our quarterly pro forma results and a reconciliation of pro forma results to GAAP results.

The basic weighted average shares outstanding during the quarter totaled 53.4 million and the ending share was approximately 53.5 million. The fully diluted weighted-average shares outstanding during the quarter totaled 53.7 million. With respect to the balance sheet, we ended the quarter with $144 million in cash and marketable securities. Representing a decrease of $6.1 million as compared to the prior quarter balance. Net cash used in operating activities was $3.2 million, as compared to 7.4 million a year ago. Day sales outstanding for the quarter, increased three days to 83 days, but remains consistent with what we have seen over the past year. Total deferred revenue as of June 30, 2005, decreased by approximately 3.2 million, to 46.2 million. This seasonal decline is consistent with previous fiscal years and is primarily related to the timing of our customers' maintenance renewals.

I will now provide some forward-looking guidance. Before doing so I would like to remind everyone of the comments Chris Martin made at the beginning of this earnings call regarding forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the beliefs of management based on the information available to us on August 1 and we are not undertaking any obligation to update these numbers or provide additional refinement. We expect total revenue for the second quarter of fiscal year 2006 to be in the range of $47 to $50 million. We expect Q2 license revenue between 18 million and 20.5 million. And we expect our quarter maintenance revenue to be in the range of $18 to $18.5 million. And services revenue to be approximately $11 million.

While we are focused on growing our license revenue ec guidance takes into account the seasonally slow summer months in Europe. And our Japanese business taking a little longer to recover than we had originally expected. If we achieve the higher end of our revenue guidance, we will show 5% growth of total revenues for the first half of fiscal year 2006 over last year and a slight increase in license revenue. Net interest and other income is expected to be in the range of $750 to $850,000. Based on these expectations and assumptions and our continued focus on cost efficiency, we expect our pro forma earnings per share to be in the range of $0.01 to $0.04 per share after pro forma taxes. We are utilizing a 35% pro forma tax rate despite the fact that the Company has approximately $230 million of net operating losses available to offset future taxable income.

We expect our GAAP results to include approximately $690,000 in amortization of intangibles related to the October, 2003 acquisitions. Amortization of warrant charges of approximately $666,000, and restructuring charges that have not yet been finalized. Again these forward-looking statements are management's beliefs based on currently available information and should not be taken as a guarantee of future results, which may differ materially as a result of a variety of factors discussed in our earning release and our latest Form 10-K filed with the Securities and Exchange Commission. With that I will turn it back over to you, David.

DAVID MITCHELL: Thank you, Mark. We have talked to you over the past year about our strategy for growth. **webMethods** has remained focused on improving business process productivity for our customers through our continued technology innovation, solutions selling and alliance and partner relationships. Business process productivity is about driving continuous incremental business improvement and represents a shift from the monolithic multi-year software implementations of the past. With **webMethods** Fabric 6.5 we have delivered the industry's first solution that allows a business analyst to model, monitor, manage and optimize a business process that can be deployed from the modeling tool across the Company's entire infrastructure.

Increasingly the value that we attain from our customer relationships is growing when those customers realize **webMethods** has this unique capability. A key component of business process productivity is the ability to leverage the existing IT assets. Global 2000 companies are looking to accomplish this through deploying a service oriented architecture. SOA is the systematic approach to software implementation where entire systems are composed of reusable components, or services combined with enterprise class management, monitoring, orchestration, optimization and security. However, just like past attempts at reuse, such as object-oriented programming, SOA requires a powerful platform that enables assets to be easily identified and readily reusable by the target audience. This is what **webMethods**' Fabric 6.5 does for our customers every day.

Keep in mind, **webMethods** has been allowing our customers to deliver on the promise of SOA since we shipped our first integration server back in 1998. In fact the term, **webMethods**, means Web Service, a core component of a service oriented architecture. And with the delivery of **webMethods**' Fabric 6.5 we have extended our leadership in SOA enabling technology. This leadership is also extended with our participation in several standards working groups. And our participation on the board of the Web Service Interoperability Organization.

Others have also recognized **webMethods** as a leader in this area. Recently **webMethods** was recognized as a leader in the recently released Forrester Wave analysis of integration suites. The report noted **webMethods** influence in the area of service-oriented architecture, or SOA, calling the Company, "the leader in promoting a service-oriented approach to computing". The report also noted **webMethods**' strong product strategy and vision and our leadership in providing advanced Web services technology. In addition, **webMethods** was named the Integration Consortium's Premier Solution Provider of 2005. **webMethods** won this award based on delivering the most complete and innovative real-time SOA based application.

We were recognized ahead of other vendors as building the most comprehensive and complete customized supply chain, business integration solution leveraging a service-oriented architecture. Beyond reinforcing our current technology leadership, this type of consistent recognition also underscores the continuing strength of our product development team. I take great provide in knowing that we are recognized as a technology leader today. As we have said, we have been supporting service oriented approaches for many years and as such every day **webMethods**' customers are using our platform to build and deploy Web services. Examples include companies like Bank of America, and of AVNET, who run their critical business services on the **webMethods**' platform.

At Bank of America, the **webMethods**' integration platform supports 250 million transaction a month and 80 plus production services including, support of all voice response for the call centers and support of their value-added on line banking functions. They expect these volumes to triple by the end of 2005. Just this past June quarter AVNET, a leader distributor of technology solutions and electronic components, selected **webMethods** as their enterprise SOA standard. Based on AVNET's past and present success with **webMethods**, we had the opportunity to explain why **webMethods**' for SOAing. We competed against IBM. But in the end **webMethods** was selected as the standard for service oriented architecture and integration globally at AVNET. AVNET is currently running more than 25 critical services and this number is growing rapidly.

These are just a couple of examples of global 2000 companies or government agencies that are partnering with **webMethods** as they execute on their Web services and SOA strategy. We are beginning to see companies make larger investments in Web services and SOA in order to drive business process productivity. And we believe our solution, **webMethods** Fabric, is uniquely position to do capitalize on this trend going forward.

In closing we are pleased with our Q1 results. Year over year we grew our total revenue 14% and our license revenue 25%. From a bottom line perspective our results represent the total lowest operating expenses in five years and the first time **webMethods** has generated a pro forma operating profit in our first quarter. More importantly, this signifies the fourth consecutive quarter of achieving pro forma profitability.

We have shown consistent improvement every quarter for the last four quarters on a year over year basis on both a GAAP and pro forma basis. We believe these accomplishments are a direct result of our ongoing commitment to achieve sustained growth and double-digit profitability. We remain focused on all areas of our business in order to attain greater operating leverage and ensure we continue to build on the momentum that we have carried into fiscal year 2006. So with that I would like to open it up for Q&A. Operator?

OPERATOR: [OPERATOR INSTRUCTIONS] Our first question comes from John Difucci from Bear Stearns.

JOHN DIFUCCI, ANALYST, BEAR STEARNS: David, I was wondering if you could address guidance? It implies a decline from last year. I'm just wondering if this is a little more conservative approach to guidance or has the environment deteriorated? Also realize that currency is likely of two negative impact after having a positive impact in the past. And last year you also probably - - your first quarter last year was pretty tough and seemed like there was some push off into the second quarter. I was just wondering if you could address that please.

DAVID MITCHELL: Sure. I'll address it and I'll have Mark provide you with more detail, John. The issue doesn't mean that remain that we want to remain conservative in terms of the guidance. I think you hit the nail on the hit, though, when you looked at Q2 and Q1 of last year versus Q2 and Q1 of this year. I think if you were to look at the business on a six-month basis for our fiscal year what you will find is that at the higher end of the range we are showing growth both on the license line, although it's slight, but also growth in total revenue. The great news to that is that even at slightly flat revenue attainment, the operating margin has expanded quite a bit. We also want to know what's going on in Japan. And we want to be pretty trepidatious about how we grow that business back to its original capacity. And we think that with the addition of this new executive hire we are going to get there quicker but we didn't think it was prudent to reflect that in our guidance. Mark, why don't you provide him additional detail?

MARK WABSCHALL: Yes absolutely. John, I think you hit a lot of points on the head there. That we had a year ago

AJS000111

14044360516

in Q1 we did have a number of deals that slip[ed into Q2. In addition, we had the one transaction that we talked about on July 5 that we were able close. However, we did not recognize the revenue until July. As a result of that I tended to take a look at it on a six-month versus six-month basis. And in doing our guidance we also took into account the same factors you just mentioned. That in Europe most people are not working during the month of August. That Japan has taken longer to recover than originally expected. And also the impact of exchange rates are all baked into the guidance that we gave. So on a six-month basis, as I mentioned in my brief comments, is that we are going to have a 5% total revenue growth, six-month over six-month. And we're also going to have a 1% increase in license revenue. It's also kind of interesting John, is if you take a look historically over the last four, five years, is that our Q2 has traditionally been our most difficult quarter that we've -- other than the aberration that had you last year where we had a very low Q1 and a very strong Q2 is that Q2 has tended to be slightly down from Q1. So we baked all of those into our guidance.

DAVID MITCHELL: Reflective of some of the summertime spending in Europe.

JOHN DIFUCCI: Okay. Fair enough. If I can squeeze one quick one in there for Mark. Mark, interest and other income was higher by about 0.5 million than we were looking for, anyway, than that you've been seeing. I was wondering if you can just address that?

MARK WABSCHALL: It's two parts. One is of course the Fed has been raising up the interest rates and most of our securities have been of a short term nature. And so the basis point increase on our cash balances is what's been driving that what we have in securities. In addition, we had a small amount of foreign exchange gains and losses. That's included in there as well.

JOHN DIFUCCI: So what should we be modeling going forward?

MARK WABSCHALL: I believe I gave you some 750 to 850 in the coming quarter.

JOHN DIFUCCI: Thanks a lot. Thank you.

OPERATOR: Our next question comes from David Hilal with Friedman Billings Ramsey.

DAVID HILAL, ANALYST, FRIEDMAN, BILLINGS, RAMSEY & CO.: David on your goal of getting to double-digit operating margin by year end what revenue run rate are you assuming you need based on the cost structure to get there?

DAVID MITCHELL: Well, as you know as someone who has tracked our model for quite sometime our, the second half of our year tends to be a little stronger than the first based on the seasonality and the customer buying behavior. Q3 tends to be a little stronger because it's the December quarter and then Q4 either trails up a little or stays flat with Q3. So, what I believe is going to happen is that we are going to continue to see strength in our business. I can't offer guidance out past the current quarter but I do believe that with the better productivity metrics that we have with the sales force, the fact that we continued to see more efficiencies in our cost model, I believe I have a real shot at it.

DAVID HILAL: Okay. Maybe a question for Rich, I think if you are on there for Q&A.

DAVID MITCHELL: He's there.

DAVID HILAL: Rich, what are the goals? I know you added about five heads this quarter. Do you feel like you are at a level that you need to be in terms of sales capacity or are you still looking at that?

RICH CHIARELLO, EVP WORLDWIDE OPERATIONS, WEBMETHODS, INC.: Well, we reached our goal and we also said we plan on adding five net heads a quarter. We are continuing to do that and right now we don't see a challenge in being able to add on a global basis five new sales heads a quarter.

DAVID HILAL: And then finally on Asia, David, is the problem getting maybe some of the new team ramped up or

14044360517

is there damage to the webMethods name in Asia? What is it that's taking that geography to recover as quick as would ynu like it te?

DAVID MITCHELL: Yes, there isn't a lot of - - obviously we had to some damage control with very key partners. The good news is we were able to leverage a contact that Bill Russell, our Chairman had from the Hewlett Packard days, Masao Terazawa, who is a renowned and very senior executive. I think he actually had the title of CEO, HP Japan. And he parachuted in there on a consulting basis and really helped us get the partnership to the next level. At the end of the day it's just getting enough deals in the pipeline and really getting that business going again. The pipeline is continuing to building I don't know, Rich, my expectation is that we will be approach traditional capacities probably by the Q4 time frame. But Andy does have some work to do there.

RICH CHIARELLO: We are still in a business, still a challenging spending environment. So meaningful expenditures in any part of the globe takes nine months to build. So, it takes you nine months from when you decide to do it and have the right people in place to really fully ramped that up and be getting the benefit of that.

DAVID MITCHELL: But with Terazawa san there on a weekly basis and then Andy taking over our expectation is that we will see some recovery there this year.

OPERATOR: Our next question comes from Tim Kiesell with Thomas Weisel Partners.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: Question on the product side, what percentage of your install base do you think will upgrade to 6.5? Obviously some will be happy to stay on older versions if they are working fine for them. And how much of that when they upgrade is there an opportunity to upsell them the band product line?

DAVID MITCHELL: Well, the upgrade itself is certainly a great opportunity to sell them the additional components. A lot of companies that run our platform to run their business and most of them do, tend to want to take a very measured approach to new releases of the software. And so my expectation. just like when the 6.0 got released. that process was a little over about year, year and a half, to get most of the existing base onto that new platform. The exciting thing about 6.5 is that they've started that planning now. And what they are doing is being exposed to all the other components in the webMethods Fabric suite that they don't have access to today that works with their past versions of the software. And so what we are seeing is, that this is starting sales cycles for optimized service net an variety of others that are not dependent on them upgrading to the 6.5 platform.

TIM KLASELL: Okay. And then real quick follow-on. Can you give us the color of the amount that you signed in July for the one large deal?

DAVID MITCHELL: It was greater than 1 million.

TIM KLASELL: Any better color than that, less than 2 million or greater than 2 million?

DAVID MITCHELL: It's about as colorful than I can get.

OPERATOR: Next question comes from Gary Abbott with Merriman Curhan Ford.

GARY ABBOTT, ANALYST, MERRIMAN CURHAN FORD & CO.: Hi, guys. Nice job on the profitability. Question is this, Dave, Rich, maybe either or both of you can take a crack from your experience. I'm interested in your perspective from the field particularly joint customers you've had with Cybian(ph) and Tibco. Cybian obviously being bought out customers have to be thinking things. And Tibco obviously has had two tough quarters in a row. So, at the very least there's some vulnerability. What are you guys seeing and hearing?

DAVID MITCHELL: Our competitors seems to still remain to be IBM. We are seeing Tibco slide down a competitive sale. I don't think it's a matter of them getting less coverage. I think we're just hitting different parts of the market. If you look at financial services, for example where we've always strong, they are strong in financial services. Yet we never see them in these accounts for payment processing. So, I can't really speak to Tibco's vulnerabilities. I know that there's a lot of internal focus in the company to try to right the ship. I think the Staffware acquisition provides them with a lot of challenges. Last data I showed was license revenue back to levels before they even did that acquisition. So some part of their business has collapsed dramatically. With regards to Cybian, we never saw them for the last two years anyway. We did see them one time last quarter in a large situation strategic situation, where they were essentially bidding at approximately a quarter of the price that we were. And after doing a proof of concept we were able to win the day at four times their cost, approximately. And my guess is they tried to bring the Sun relationship to bear on that and weren't that successful. So we are not seeing a lot of Cybian anyway. And in the government it's wide open we don't see anybody but IBM.

OPERATOR: Our next question comes from Greg Moskowitz with Susquehanna Financial Group.

GREG MOSKOWITZ, ANALYST, SUSQUEHANNA FINANCIAL GROUP: Hi, David. I guess in Europe you are expect ago gradual improvement I think as you call it over the remainder of fiscal '06. I wanted to ask on North America because with several management changes under your belt. and as you discussed following pretty good results certainly for Q1 in North America. Do you think things are in place now for continued execution , here in North America going forward? Or are there some adjustments either minor ones that you are still making to the sales model aside from adding five heads a quarter?

DAVID MITCHELL: There is always opportunities for personal growth when it comes to sales execution particularly in this environment. But I will tell you that as Mark highlighted in his part of the conference call this where was the first time in Company history where we saw North America stay flat from Q4 to Q1 where they should have gone backwards relative to other regions performance and we have seen historically. So I am very happy quite, frankly, that North America is continuing to charge ahead. Since this reports directly to the Rich I will let Rich address the question as well.

RICH CHIARELLO: Well, again, not to repeat everything David just said but we are continually go looking to improve our hands and add more salespeople and improve the process. But we believe that we are directionally sound in what we've done in North America. And remember this seven figure deal that was deferred in July we would have also counted in the North America number, to give you an idea really what a great Q1 they had. And, so we think that's an area where the changes that I made six months ago are really starting to pair out now and the major overhaul of North America has been done already.

MARK WABSCHALL: Now, it's time to add more humans to the mix which we are doing.

OPERATOR: We have time for one final question. And that question does come from Don Wang with Prudential.

DON WANG (ph), ANALYST, PRUDENTIAL: When you added the director of the government business, was that a new position or was that a replacement? Was there somebody there that that individual replaced?

DAVID MITCHELL: That was a replacement and upgrade from my perspective. She has really brought a lot to the role. We are really happy with what she has done so far.

DON WANG (ph): Okay. And could you just alk about maybe an update on the partner front, where you see any emphasis or where you are focusing on SI partners or OEM's?

DAVID MITCHELL: Yes, unlike my competitor at Tibco who seems to be wanting to do more and more of the services themselves and they seem to be disenchanting some of the bigger SI's, we continue to look for leverage with those SI relationships. So, we are traditionally doing business with all the SI's that you would thinking of, Accenture, EDS, Bearing Point, Cap Gemini, Deloitte. We are getting aggressive with these different SI's on different solutions. Particularly with areas around compliancy or the data driven supply chain. And we are seeing good pipeline being created and we are going to continue to invest with those systems integrators. Key to differentiation has been really in the business activity monitoring. Where we seem to have a very unique approach to the optimization of these business processes, which isn't a service that's readily available with offshore organizations. And I think we are finding the likes of Accenture, Deloitte and Bearing Point very excited that they

AJS000114

are able to get higher realization on that work in terms of their hourly rate. And, of course, that allows us to look at some bigger transactions within the environment Rich, do you have a perspective?

RICH CHIARELLO: One thing why add is you are continually seeing the large SI build their integration practices around the ERP practices, which in essen becomes SAP. And in that case the technology they need is integration and B-to-B and process optimization. And it's perfect because as you know the SI's just want to train their folks in one tool to utilized across as much of the project as possible. And so we've seen more of instances where we are priming and sharing with them, they are priming and sharing with us, as they move more and more towards focusing on ERP.

OPERATOR: And that does close the time we have allotted for questions. Mr. Mitchell, are there any closing remarks?

DAVID MITCHELL: Just want to say thanks to everyone for participating this evening. And we look forward to talking to you next quarter. Take care.

OPERATOR: That does conclude today's teleconference. You may now disconnect.

[CCBN reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any persnn of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES CCBN ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

Document FNDW000020050815e1810018q

Q2 2006 webMethods, Inc. Earnings Conference Call - Final

10118 words
25 October 2005
Voxant FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: Good afternoon. My name is Katina and I will be your conference facilitator today. At this time I would like to welcome every to the webMethods fiscal year 2006 second quarter earnings results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer period. [OPERATOR INSTRUCTIONS] Thank you. Mr. Martin, you may begin your conference.

CHRISTOPHER MARTIN, VP INVESTOR RELATIONS, WEBMETHODS, INC.: Thank you, Operator.

Good afternoon, everyone, and thank you for joining us. My name is Christopher Martin, Vice President, Investor Relations at webMethods. The purpose of today's conference call is to discuss our second quarter fiscal year 2006 financial results.

Joining me today are David Mitchell our President and CEO, and Mark Wabschall, our Chief Accounting Officer. Rich Chiarello, our EVP of Operations will also be joining us for the question-and answer-portion of today's call.

The press release we issued this afternoon regarding our results is available on our Web site that is www.webmethods.com [http://www.webmethods.com]. Our press release and a Form 8-K are also being filed with the Securities and Exchange Commission.

Before we begin please note that this conference call is being broadcast over the phone and via a live Web cast. This call is being recorded and will be available for replay on our Web site or by dialing the following numbers: 1-800-642-1687 in North America, or 1-706-645-9291 outside of North America. The confirmation number is 1209334, and the conference call replay is available through November 1, 2005.

As we will provide non-GAAP financial information in this call, please refer to our earnings release for a reconciliation of that information to GAAP measures, explanations of why our management uses those measures and cautions on the use of non-GAAP information.

During the course of this conference call, management may make comments which are forward-looking in nature. These comments are intended to be forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These projections and other forward-looking statements regarding expectations may include comments regarding future business and financial metrics, our pipeline, future cost savings and expense levels, costs of legal compliance matters or internal control matters, anticipated results of marketing and selling models, and expectations of future financial performance, including total end-license revenue, margin, anticipated charges, net income, earnings per share, and non-GAAP results per share. Any forward-looking statements are subject to various risks and uncertainties that could cause the actual results of webMethods to differ materially.

Please refer to the discussion of risks and uncertainties in webMethods earnings press release and SEC filings. Specifically, review the discussion of factors that may affect future operating results in webMethods' most recent Forms 10-K and Form 10-Q which are on file with the SEC and available electronically through EDGAR or a link on our Investor Relations Web site. These forward-looking statements should not be viewed as a guarantee of or a commitment to any action or result. And our actual performance may differ materially from those measures indicated in our forward-looking statements. These statements reflect the beliefs of management based on information available to us on October 25, 2005, and webMethods does not undertake any obligation to update or correct any forward-looking statements due to the occurrence of events after this call. I would now like to turn the call over to David Mitchell, webMethods' President and CEO. David?

DAVID MITCHELL, PRESIDENT, CEO, WEBMETHODS, INC.: Thanks, Chris. Good evening, and thank you for joining us.

Hopefully by now you've had an opportunity to read through our earnings press release. I have to say that I'm very pleased with the results and I would like to reiterate some of the key metrics from the quarter.

Total revenues were $49.2 million, total license revenues were $19.4 million, GAAP earnings per share, as well as non-GAAP earnings per share were $0.05; total revenues were at the high end and license revenues were above the midpoint of the original guidance that we provided on August 1st. The non-GAAP earnings per share of $0.05 exceeded our guidance of $0.01 to $0.04 per share.

These results represent the best quarterly bottom line performance in the Company's history and the first quarter in which webMethods has recorded positive GAAP earnings per share. The transformation of our cost structure has resulted in recording the lowest quarterly expenses since the Company's initial public offering in February of 2000.

In Q2, we had more head count on the payroll than in the previous year, including 20 additional quota bearing reps, yet our total operating costs were down 10% on a year-over-year basis. Our resources are now more closely aligned with our objective of improving the yield on our sales and marketing investments.

Based on non-GAAP operating income of approximately $3.4 million, we reported 7% operating margins for the quarter. This represents a better than 4x improvement when compared to last year, and certainly illustrates our commitment to deliver double-digit operating margins by the end of our fiscal year.

Since becoming CEO approximately one year ago, I have worked with the management team to consistently execute against three key objectives to drive greater shareholder value. These are deliver consistent profitability, demonstrate a credible path to double-digit operating margins, and return license growth to our business.

As I have highlighted, we've shown demonstrable progress against the first two objectives of consistent profitability and double-digit operating margins. Therefore returning license growth to the business remains the final piece of the puzzle. We believe that we have laid the foundation to achieve this. Before I provide further details, I would like to turn the call over to Mark Wabschall so that he can provide additional commentary on our financial results. Mark?

MARK WABSCHALL, CAO, WEBMETHODS, INC.: Thanks, David. And good evening, everyone. As David indicated, this past quarter webMethods generated the highest level of profit in its history. This achievement was a result of our continued focus on operational efficiencies as well as our commitment to running a profitable enterprise software business.

Total revenues for the second quarter were 49.2 million, which was at the high end of the guidance we provided you back in August. This compares to 47.7 million in the prior quarter, and 50.8 million in the prior year second quarter. This represents a 3% sequential increase and a 3% year-over-year decline.

For the first six months our total revenues were 96.9 million, as compared to 92.7 million in the first six months of last fiscal year. This represents an increase of 5% as well as the highest level revenues for the first half of a fiscal year.

License revenue for the second quarter was 19.4 million, which was above the midpoint of the guidance we provided you back in August, and represents 39% of our total revenue. This compares to license revenue of 18.5 million in the prior quarter, and 23.9 million in the prior year second quarter and represents a 5% sequential

AJS000117

1404436522

increase and a 19% year-over-year decline. Last year's strong Q2 performance was assisted by a number of deals that we were unable to close in Q1. Therefore, looking at license revenues over a six-month period is more indicative of our performance.

For the first six months, total license revenues were 37.9 million as compared to 38.7 million for the six months of last fiscal year. This 2% year-over-year decline was primarily due to our Japanese business which has not yet recovered to its historical license revenue levels. The Americas and EMEA regions recorded license revenue growth for the first half of the year.

Professional services revenues were 11.3 million as compared to 11.7 million in the prior quarter, and 12.1 million in the prior year's second quarter. This represents a 3% sequential decrease and a 6% year-over-year decrease. This decline was primarily attributable to lower subcontractor revenue as we have either shifted more of this business to our own employees or to system integration partners which had an intended favorable impact on our service margin. On a sequential basis, training and billable hours were also impacted due to the summer holiday period.

Maintenance revenues were 18.5 million as compared to 17.6 million in the prior quarter, and 14.8 million in the prior year's quarter. This represents a 5% sequential increase and a 24% year-over-year increase. Year-to-date our maintenance revenues have increased 22% when compared to the first six months of last fiscal year.

Americas' revenues were 30.9 million. This is a 2% sequential increase and a 5% decrease when compared to last year's Q2. Year-to-date the Americas' revenues grew 5% to 61 million when compared to the first six months of last fiscal year. This strength in the Americas was driven in part by our federal government business which, for the second consecutive quarter, represented approximately 20% of total bookings.

Government agencies continue to undertake system modernization initiatives with a service-oriented approach in order to provide them with the means for rationalizing their IT portfolio.

International revenues were 18.3 million, or 37% of total revenues. Revenues from EMEA were 12.1 million, which is the highest level we have had in the second quarter. This represents 12% sequential increase and year-over-year growth of 15%. Year-to-date, EMEA's revenues grew 25% to 22.9 million, and represents the best first half performance for that region. Asia-Pacific revenues excluding Japan were 3.5 million. This represents an 18% sequential decline and a year-over-year increase of 21%. Japan revenues were 2.7 million, representing a 7% sequential increase and a 44% decline when compared to last year's Q2. Our Japanese business is slowly recovering from the problems we encountered earlier this calendar year.

We closed six contracts in the quarter which were greater than $1 million. Four of these transactions were in the United States and two were in Europe. No single customer represented 10% or more of total revenue. Our average deal size of transactions over $100,000 was approximately 400,000, which compares to 400,000 in Q1, and 475,000 in Q2 of last year. Approximately 75% of our bookings in the quarter were from existing customers including Adobe, Amtrak, Chartered Semiconductor, Eastman Kodak, GXS, ING North America, and the U.S. Navy. We added more than 30 new customers which included companies like Agos, British Plasterboard PLC, Hiscox, Japan International Cooperation Agency, National Commerce Bank, Taiho Pharmaceutical, [Wright] Move, U.S. Forest Service, and Wales and West Utilities Limited. Approximately 40% of our bookings in the quarter were influenced by our partners.

Moving now to our non-GAAP gross margins, which excludes certain non-cash and other charges, we achieved total non-GAAP gross profit of 35.4 million as compared to 34 million in the prior quarter, and 38.2 million in the prior year period. Non-GAAP gross margin was 72% of total revenues as compared to 71% in the prior quarter and 71% in last year's Q2.

Services margins were 55% as compared to 54% in the prior quarter, and 47% in the prior year period. Improving our services margins has been a focus of the Company, and this quarter we achieved the highest service margins in the Company's history. This also represents the third consecutive quarter of services margin improvement.

Our non-GAAP operating expenses for the quarter were 31.9 million as compared to 33.9 million in the prior quarter, and 35.6 million in last year's Q2. This represents a sequential decline of $2 million, or 6% and a year-over-year decline of 10%. We were able to achieve this year-over-year reduction despite having higher head count. We ended the second quarter with 795 employees, which compares to 807 at the end of Q1 and 784 one year ago.

With respect to specific line item non-GAAP operating expenses, which excludes certain non-cash and other charges, the results for the quarter are as follows. Sales and marketing expenses were 16.4 million compared to 16.6 million in the prior quarter, and 19.9 million in the prior year period. Due to improved sales force productivity, we're able to achieve comparable license revenues for the first half of the fiscal year with lower sales and marketing costs. As David mentioned earlier, over the past year we have aligned our resources more closely with our objective of improving the yield on our sales and marketing investments. We ended the quarter with approximately 80 quota bearing reps.

Research and development expenses were 10.1 million compared to 11.1 million in the prior quarter, and 10.8 million in the prior year period. On the last call, we mentioned the consolidation of our R&D operation in Boston and we saw some additional cost benefits from this consolidation this quarter. We also continue to leverage our India development center, where we now employ over 15% of our worldwide R&D staff.

G&A expenses were 5.4 million compared to 6.2 million in the prior quarter, and 4.9 million in the prior year period. The sequential decline was primarily due to less consulting fees and the year-over-year increase was primarily due to higher auditing and consulting fees associated with ongoing Sarbanes-Oxley compliance. As a result, our second quarter non-GAAP operating income was 3.5 million which represents a 7% operating margin. This compares to 21,000 in the prior quarter and 627,000 in the prior year period.

We are pleased with the progress we have seen on both a sequential and year-over-year basis. On a GAAP basis our operating income for the second quarter was 1.8 million, which represents a 4% operating margin. This compares to a loss of 1.5 million in the prior quarter and 3.4 million in the prior year quarter. Net interest and other income in the second quarter was 993,000. On a GAAP basis our income tax expense in the second quarter was 243,000, which was due to tax expense that could not be offset with net operating losses generated in prior years.

Non-GAAP income tax expense was approximately 1.6 million which assumes an effective tax rate of 35%, and disregards the availability of approximately 230 million of net operating loss carry-forwards. Our non-GAAP net income for the second quarter was 2.9 million, or $0.05 per share which is higher than the 764,000, or $0.01 per share reported in the first quarter, and the 659,000, or $0.01 per share in the prior year quarter. Our non-GAAP results for the second quarter exclude 599,000 in amortization of acquired intangible assets, 661,000 in amortization and deferred warrant charges, and 431,000 restructuring costs, and include income tax expense assuming an effective tax rate of 35%.

Our second quarter GAAP net profit was approximately 2.6 million, or $0.05 per share as compared to a loss of 514,000 in the prior quarter, or a loss of $0.01 per share and a loss of 4.1 million, or a loss of $0.08 per share in the prior year period. Today's earnings press release contains further information on the reconciliation of non-GAAP to GAAP results.

The basic weighted average shares outstanding during the quarter totaled approximately 53.6 million and the ending share count was approximately 53.7 million. The fully diluted weighted average shares outstanding during the quarter totaled approximately 54.3 million.

With respect to the balance sheet, we ended the quarter with approximately 148 million in cash and marketable securities, representing an increase of 4.3 million as compared to the prior quarter balance. Net cash provided by operating activities was approximately 6 million as compared to a use of cash of 2.8 million a year ago.

DSOs for the quarter decreased eight days to 75 days sales outstanding. Total deferred revenue as of September

30, 2005, decreased by approximately 1.7 million to 44.6 million.

I will now provide some forward-looking guidance. Before doing so, I'd like to remind everyone of the comments Chris Martin made at the beginning of this earnings call regarding forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the beliefs of management based on information available to us on October 25th, and we are not undertaking any obligation to update these numbers or provide additional refinement.

We expect total revenue for the third quarter of fiscal year 2006 to be in the range of 50 to 53 million. We expect Q3 license revenue to be in the range of 20 to 23 million. We expect Q3 maintenance revenue to be approximately $19 million, and services revenue to be approximately 11 million. Sales and marketing expenses will include approximately $1 million for the cost of our annual user's conference. Net interest and other income is expected to be approximately 900,000.

Based on these expectations and assumptions and our continued focus on cost efficiencies, we expect our non-GAAP EPS, which excludes approximately $600,000 in amortization of intangibles as well as approximately $660,000 in amortization of deferred warrant charges, and assuming a 35% effective tax rate, is expected to be in the range of $0.04 to $0.07. On a GAAP basis, we expect our EPS to be in the range of $0.03 to $0.07.

Again, these forward-looking statements are management's beliefs based on currently available information and should not be taken as a guarantee of future results, which may differ materially as a result of a variety of factors discussed in our earnings release and our latest Form 10-K filed with the SEC.

I would like to remind everyone that we will be holding a media analyst summit in the afternoon on November 14th, prior to the formal start of our annual user's conference, Integration World 2005 in Atlanta, Georgia. If you are interested in attending this event, please contact our Investor Relations team. Now, I'd like to turn the call back over to David.

DAVID MITCHELL: Thanks, Mark.

I want to congratulate the entire webMethods' global team on a very successful quarter. As I stated earlier on the call, we have been executing as a management team against three core objectives that we believe are requirements for driving greater shareholder value. As Mark and I have just highlighted we've made excellent progress on the first two of these objectives and I want to now turn the discussion with regards to how we're going to achieve the final objective, which is driving additional license growth through the business.

Looking beyond just the next three-month time frame, we believe that we're approaching an inflection point where the most significant trends and opportunities in IT are aligning with our core differentiators. Namely, the uniqueness of our integrated product suite, our independent approach to business integration and our introduction of a line of business solutions. One of these trends is the shift from a focus on monolithic application implementation to a focus on improving the processes that drive the business. We call this process Syntricity.

Traditional enterprise applications operate in silos as defined by business functions. However, businesses operate as a series of processes spanning these systems. This gap has fueled the debate, that IT really matters. IT is now realizing that in order to maximize the value they can deliver to the business they need to focus on the process. A recent survey on the state of the CIO by "Optimize" magazine concluded for the first time C(ph) level executives believe that knowledge about the business processes is more important than knowledge about the specific technology needs.

A recent report from Forrester asked, are enterprise applications dead? Yes, was the conclusion with long lived business process platforms being the refrain. Likewise, AMR argues that ERP systems of the future will be comprised of an SOA, Service Oriented Architecture-based collection of Web services supporting a variety of business processes. We expect this trend to be the biggest driver of growth in the business integration software market and it is a major theme of our upcoming user conference, Integration World. We are excited that the rest of the industry agrees, as many of you can attest to firsthand, process focused service oriented business integration was the top line theme for most of the recent major vendor conferences.

What is interesting for webMethods is that while companies are focusing more heavily on their business processes, they remain challenged by the realities of their heterogeneous world. Within the realities of their heterogeneous infrastructures, companies are managing global supply chains encompassing multiple trading partners, supporting an increasing number of business process outsourcing initiatives, as well as managing differing departmental objectives and geographically distribute operations. These realities are most relevant to the largest company and government agencies around the world.

I recently spoke with a Fortune 100 CIO who told me that ERP vendor's approach to business integration is improving but it will never replace all that webMethods has to offer. This CIO added, we continue to need an independent approach, because we will always have heterogenoous requirements.

What users are recognizing is that they'll never operate in a one vendor world, nor can they afford to wait three to five years for the ERP vendors to offer what we offer today. Just this month, Gartner's Chief Business Integration Analyst, Roy Shulte, was quoted as asking a symposium audience, "Do you think Oracle and SAP are going to get together and sit down to figure out the interfaces in their applications and make them speak to each other?" His answer was, "No". This just further underscores the reason that users require an independent vendor like webMethods.

Ultimately the challenge of integrating their own product suites rests with the ERP vendors. The challenge of integrating the enterprise rests with us. webMethods recognized the shift to process syntricity quite some time ago. Our efforts to integrate our product suite, our move to a solution-selling sales model and our introduction of business process productivity solutions have all been aligned against a goal of creating a first mover advantage to capitalize on the opportunities that the shift to process syntricity will offer. And I'm proud to say that is exactly what we have accomplished.

While these efforts have positioned us with an early mover advantage, none are more important than the advantage we have gained by the release of webMethods Fabric 6.5. As we continue to hear from customers, analysts and partners, webMethods Fabric 6.5 is the industry's most complete yet flexible solution for total business integration.

In fact, in a recent proof of concept our largest competitor sent an implementation team that was 10 times the size of our account team and yet was unable to deliver the performance that we offered in webMethods Fabric. It is the highly integrated components of the product suite as well as its unique BPM, Business Process Management, and BAM, Business Activity Monitoring capabilities, that really wins the day in our sales efforts.

In addition to all the unique capables of webMethods Fabric, we're able to market this solution to multiple parts of the business. For a technologist, we're able to highlight the unmatched service-oriented architecture capabilities offered by webMethods Fabric. For the line of business manager, it is the business process management and business activity monitoring components that deliver process-centric views of their operation.

With the addition of a sales force that understands this approach, and can convey these value propositions, we're seeing success. During the quarter, three new sales reps in Europe each accounted for approximately $1 million in new customer bookings from process-centric led deals.

We're also bridging the gap between IT and the line of business with a consistent focus on return on investment. We are working hand in hand with our customers to help them define the business case required to demonstrate ROI to the business. Through our formalized ROI workshops, we have completed a number of these exercises during the quarter. One such workshop resulted in the justification and closure of a mid six-figure transaction for a business activity monitoring project at a Fortune 100 company. This is just the first transaction amongst multiple lines of business at this company that will leverage this technology.

In some cases, our competition is not our vendors but rather other enterprise priorities. As such, our ROI workshop approach represents a huge opportunity for us. This approach has also allowed us to employ value-based pricing more frequently. Clients recognize that we're contributing a much more complete solution today and are willing to reward us accordingly.

Rather than focusing on a perpetual license sale that limits the long-term potential of these specific relationships, we're increasingly focused on project-based arrangements that allow us to better capture the value that we create. Therefore, it is three acronyms: SOA, BPM, and ROI, that provides us with significant differentiation and real competitive advantage in the marketplace. Based on this position, we're uniquely qualified to deliver the technology leadership, the domain expertise and the proven processes and methodologies that clients increasingly require to support their most strategic undertakings.

In the end, we have witnessed a sea change in how we go to market. Under the old approach to business integration, we were often the parts vendor, selling the glue needed to hold together the application portfolio. Under the new process-centric approach, we are a strategic partner providing our clients with a global overlay for integrating their enterprise systems, powering their key business processes and delivering the real-time visibility needed to continually optimize their operations. Simply put, old integration is glue. New integration is process.

WebMethods is well positioned to exploit our early mover advantage in the shift to process centricity. Leveraging our core assets, namely the uniqueness of our integrated product suite, our independent approach to business integration, and our line of business solutions combined with our growing sales force, we believe we have positioned ourselves to achieve our final objective which is to drive license revenue growth back into the business. So with that I'd like to turn things over to the Operator and open up for questions. Operator?

OPERATOR: [OPERATOR INSTRUCTIONS] We'll pause for just a moment to compile the Q&A roster. Your first question comes from John Di Fucci with Bear Stearns.

DAVID MITCHELL: Good evening, John.

JOHN MCVEIGH, ANALYST, BEAR, STEARNS & COMPANY: Hi, good evening, guys: It's actually John McVeigh for John Di Fucci. First off just wanted to say congratulations on the improving margins on a good quarter. That's great.

DAVID MITCHELL: Thank you. The team worked really hard on them.

JOHN MCVEIGH: Yes. Turning to guidance for a minute, I was just wondering if you can help us to think a little bit more how you got to the 20 to 23 million license guidance? I can understand that the year-over-year compares are still a bit tough given your ongoing recovery in Asia-Pacific, but I would have thought that sequentially, you know, the growth into calendar fourth quarter would have been a bit more robust. Are there any factors leading to you being a little bit more conservative with your guidance?

DAVID MITCHELL: John, that's a great question. Obviously, we take a very conservative and prudent view in terms of analyzing our business and highlighting what we think the business is going to be doing for our shareholders.

Keep in mind, in the December quarter of last year, we did have a very significant transaction that we talked about in Europe. I believe it was something north of $5 million. Obviously, forecasting that kind of transaction becomes quite tricky in this environment, where the bigger the deal, the harder it is to understand when it's going to close. And so although we do have many significant transactions in our pipeline, what we want to do is take a conservative view and really factor a higher risk variable against those bigger deals. And so what you're seeing is our conservative and prudent view of where we think the December quarter is going to be.

December and March due tend to be the stronger part of our buying cycle though, you're quite right, and with the addition of 20 additional reps, and the ramping and the process-centric view that they're taking, we're quite encouraged by their ability to execute this quarter.

JOHN MCVEIGH: Okay. Great. Thanks, guys.

CHRISTOPHER MARTIN: Operator, next question?

OPERATOR: Your next question comes from Dino Diana with UBS.

DINO DIANA, ANALYST, UBS WARBURG: Hi, guys. Thanks. Nice job on the cost-cutting front.

DAVID MITCHELL: Thanks, Jim.

DINO DIANA: In Japan, I think you mentioned last quarter that you potentially could get back to a run rate, kind of I guess the 5 million or so run rate in the fourth quarter. Do you think that you're still on track for that?

DAVID MITCHELL: You know, every time we think that we are making progress in Japan, we continue to have some challenges there, and so again, we're taking a very conservative and prudent view. We've put new management in place in the different regions around Asia-Pacific, and a new manager for all of the Asia-Pacific Japan regions, so we expect Japan to slowly recover. And that's going to, you know, happen throughout the year. Rich might have something to add here.

RICH OHIARELLO, EVP OPERATIONS, WEBMETHODS, INC.: Well, you know, I think as we talked about in the comparative analysis, year-over-year on a six-month basis our license revenue has grown in North America, has grown in EMEA. If you look at the order in which we went and redid the regions we started with North America first, then we did EMEA, we just added a GM at the beginning of or end of last quarter, end of Q1. We just hired three sales directors for that region to begin and we're just in training this week.

If you look at the lead time that it's taken to fix the other regions, I think we will look for a comparable lead time there. But we're being very conservative in trying to base guidance that doesn't rely on, you know, Japan getting well quicker than it appears it's going to take.

DINO DIANA: Okay. Fair enough. And can you just remind us, in deferred revs, what percentage is license revenue? I think historically it's been about, you know, less than 10% you say.

DAVID MITCHELL: Very small. Mark can take that call. Most of it's maintenance, I believe.

MARK WABSCHALL: We typically don't break that out but the biggest thing of course is the deferred maintenance as we bill that on an annual basis and recognize it over the four quarters. Part of the decrease that we had this last quarter of course is we had a large transaction, which we talked about at length last quarter that we had recorded but did not recognize revenue till this quarter and that was the primary reason for the decrease.

DINO DIANA: Right. If I just look at it on a, kind of like a six-month basis, it's decreased kind of, it's been a about a 4.9 million decrease. I'm just wondering, you know, compared to last year it was balance that was building. How should we look at modeling deferred revenue?

MARK WABSCHALL: Keep in mind that big deal that we talked about in the last quarter with regards to the government, that was a seven-figure transaction that went into deferred.

DINO DIANA: Right but it was still down--

MARK WABSCHALL: And it came out in Q2.

DINO DIANA: Right. But it was still, even if you include that that's why I'm looking at it kind of on a six-month absolute basis. That deferred revenue contract -- that contract would have been deferred revenue in June of '05. I'm just looking at the decrease in June of '05 and September of '05, and wondering how we should think of about it going forward?

MARK WABSCHALL: Well, I just want to make sure you're picking up, we have two line items for deferred revenue. So, you're picking up the long-term and the current.

DINO DIANA: Short-term and long-term, right.

MARK WABSCHALL: And you typically, the seasonality you would see is that as you have your stronger quarters when you're booking more deals. And that's also when you're renewing more of the maintenance contracts because we renew on an anniversary basis. So that's why you see the seasonality of maintenance, deferred rent, deferred revenue.

DAVID MITCHELL: Operator, can we get the next question, please?

OPERATOR: Your next question comes from John Rizzuto from Lazard.

JOHN RIZZUTO, ANALYST, LAZARD FRERES & COMPANY: Good afternoon, everyone.

DAVID MITCHELL: Hey, John.

JOHN RIZZUTO: Hi, David. David, I want to, the problem with the industry in which you participate in is that it's been very fickle. It's been, it was all the rage back in 2000, 2001, and then ever since then it was always the next best thing.

We're looking at SOA and BAM as being big drivers of this industry now. You were early, I think it was two years ago at least when you made a bunch of acquisitions and restrategized as to the direction you were going to go to address this market.

What I guess I'm after is what you look at tangibly that helps you determine that you're being successful in these new trends and I guess you said the SOA and the BAM were two of the three acronyms that you mentioned. What's different about, where you're not just doing the same integration business in disguise?

DAVID MITCHELL: Well, first of all, the market's really bifurcated itself in terms of who you sell to. Because of the process-centric nature of the largest companies and government agencies in the world, what we're finding is that if we take a solutions approach and we talk to the line of business manager about how to improve their business process, a couple of things happen. One, the value of the deal tends to be much bigger. The type of conversation that you have tends to be much more strategic. And what we're finding, and Rich can talk about this, is that there doesn't seem to be a whole lot of competition. We do see IBM because of their services organization, but the traditional competitors just aren't in the line of business selling, you know, process-centric solutions.

And what we're finding is that on the technology side, what's really starting to happen in pipelines starting to build is really around service-oriented architecture, companies wanting to now move out of the experimentation phase of SOA and really talk about putting that sort of architecture in place. In fact we did a recent survey of our customer base and found out that a vast majority of our customers were already using webMethods to build out their SOA, tracking thousands and thousands of Web services.

So really approaching the technologist with the SOA message which is a new paradigm in computing, a new wave that people will start to invest in, and then going to the line of business manager with a strategic value proposition is really what's starting to drive growth in our pipeline, and we believe will drive growth in our license performance. And again, on the line of business side, we're not seeing any of the traditional competitors other than IBM.

JOHN RIZZUTO: Okay. Fair enough.

DAVID MITCHELL: In the past, John, it was really about selling technology to technologists who didn't want to spend any money on technology and it was about glue, gluing things together, adapters. This is a whole new game now in terms of where we're doing, where the messages are targeted and what value we're bringing to the marketplace.

JOHN RIZZUTO: Has the drivers changed? And it sounds like you're implying that it may have, where obviously you'd lead with the integration card; they'd make application A talk to application B. Has the driver really come away from that? I mean it's still going to be a big part of the business, but if you can, anecdotally tell us how big a part is application A talking to application B?

DAVID MITCHELL: You know, with existing customers sure we will have add-on sales to extend their integration platforms, but the sales reps that are excelling right now in our sales force are the ones that are focusing on solutions, selling to the line of business manager, focusing on the processes that run that business. And so we're hiring guys from Oracle, PeopleSoft, Siebel who understand how to sell solutions and they're focusing on that process that's driving the business, and really kind of building a whole bunch of value there.

So, the integration piece is still important, but it's really the process-centric view tied together with the integration that's making the whole solution complete. Rich, perhaps you have a perspective.

RICH CHIARELLO: So, it doesn't make it sound, process syntricity is something that's too hard for everyone to understand. At the simplest level, there is somebody who on the surface is taking in orders, 1,000 a week, and processing 600. All the line of business wants to understand is these orders are passing through 10 different systems, what's happening to the 400 that I'm not fulfilling?

Now, at the core, there's an integration problem that has to be solved. But from the line of business and the way it manifests itself is, what's the process, what step am I losing orders or are things getting hung up, and give me that real-time visibility.

The investments we made in 2003 enabled us to buy the technology and integrate it into what we had already to create Fabric. And that's really what's giving us the advantage. Because if you look at any vendor, any large software enterprise, software vendor today's Web site, you would think all of a sudden they were integration software companies.

You go to SAP's Web site, all you hear about is integration. You go to IBM, all you hear is integration. Oracle, all you hear about is integration. And the reason is, they're trying to play catch-up and figure out what to do since the buying is occurring in the space that we're in, which is this process-syntricity on the line of business side and the ability to get reuse out of Web services on the SOA side.

CHRISTOPHER MARTIN: Okay, Operator, next question?

OPERATOR: The next question comes from David Hilal with Friedman, Billings, and Ramsey.

DAVID HILAL, ANALYST, FRIEDMAN, BILLINGS, RAMSEY GROUP: Good afternoon, thanks.

DAVID MITCHELL: Hey, David.

DAVID HILAL: Hey, guys. David, on the expenses, you guys keep doing a good job there cutting, and I'm wondering, how should we think of the run rate of expenses? Have you cut kind of all the superficial stuff you can and we've bottomed or is there more available that you can take out of the business?

DAVID MITCHELL: We're certainly not going to go after any kind of restructuring activity this quarter. I will tell you, though, that every time I think we've turned over every rock, we find a whole closet full of rocks that we didn't know about. So we continue to, you know, with a maniacal focus on expense management try to squeeze out every bit of efficiency and we will continue to look at facilities, travel, you know, all the big ticket items.

But more importantly, I think what you need to recognize is that we really transformed what we're spending money on within our cost structure, and if you look at kind of the head count statistic that I talked about earlier, we have more people on our payroll in Q2 than we did a year ago in Q2, yet our operating expenses were 10% less. We have 20 more reps than we did a year ago. Sales and marking is down significantly. So we're really kind of, we've just basically transformed the way we invest in our business and what the expectation is in terms of yield.

DAVID HILAL: No argument there. I think the efficiency is great. I'm just trying to understand going forward for modeling, if it sounds like there is not much more cost to cut relative to what you've been able to do the last few quarters.

DAVID MITCHELL: I think there's more opportunity there. And you know, the good news is we have a major customer conference this quarter which will help drive deals to closure and create pipeline. The bad news is it cost us a million dollars. So we have to figure out a way to get more efficient with those kinds of events and I think we're going to see a pretty good yield out of that investment. But that is something that we're going to be seeing this quarter.

DAVID HILAL: Okay. And in terms of the quarter reps, I think I May have missed it but do you plan to add to the 80?

DAVID MITCHELL: We're going to continue to invest. I think we talked about a net five per quarter and as long as we continue to see the ramp and the productivity and the investment in sales, total sales and marketing dollars yield in terms of license revenue and expansion of EPS, we'll continue to do that.

DAVID HILAL: Great. And you know, your maintenance line item has been doing very well. It seems to be growing disproportionately faster than license and usually those are somewhat connected. And I was hoping you could explain why maintenance keeps growing quite significantly versus kind of a flattish to down license number?

MARK WABSCHALL: Yeah, I think I'll take this one. If you take a look at maintenance revenue, you saw the largest jump was back between the September of 2004 quarter to December 2004. As we mentioned back then, is that we did a concerted effort to go through our database and there was some catch-up in some maintenance.

But going forward, we have a closer eye on that, I think we've done a much better job and the renewals of our maintenance continue to be above the industry standard. Here in North America, we're 90 to 95% of maintenance renewals. And so we find that customers are not willing to unplug our product. It's into their infrastructure, and as a result of that we have high-maintenance renewals.

DAVID MITCHELL: We also are seeing the effect of what happens to a maturing software company that takes good care of their customers, that makes sure that they are using the product, and that they do renew the maintenance. And so that's just going to continue to be another recurring stream of revenue that we'll have as leverage going forward.

CHRISTOPHER MARTIN: Operator, next question?

OPERATOR: Your next question comes from Sterling Auty with JP Morgan.

STERLING AUTY, ANALYST, JP MORGAN CHASE & COMPANY: Thank you. A couple of questions. I want to talk a little bit about the pipeline. You had a nice decline in DSOs. We ran across a couple of instances where you weren't pushing all that aggressively to get deals closed in the quarter. I mean does that suggest that you're, you know -- what kind of situation is the pipeline as you enter your two strongest seasonal quarters? And then I have two follow-ups.

RICH CHIARELLO: Well, there's a couple of things happening. If you remember we talked about changing our business model away from one and done, which is what middleware typically lends itself to, to more of a repeatable success business model where you're licensing by project. When you go in and do that for the first project, you might only get 60% of what you could get for a one and done, but of course, you hope to get five or six or seven projects as opposed to the one and done. And so I would say from an analogy point of view, we're doing the same thing with licenses as we're doing in professional services.

How could our margin on PS be up if the total PS revenue is down? The reason is, we got rid of the PS work that provided little or no margin. And so our goal here is to only take on business that we think will give us long-term success and growth. And you're probably hearing from some customers that, you know, at the end of the quarter, webMethods isn't running around desperate trying to get any piece of license revenue it can. I'm assuming that's what you're alluding to.

DAVID MITCHELL: We're also finding that by selling to the line of business managers, they tend to inject themselves in the procurement process when that procurement manager who just bought five Dell PCs before he picked up the phone with you and wants to get the best and lowest price, tends to interject because they do want the project to move forward because what we've done is showed them a way to essentially achieve their bonus and improve their business. So this tends to give us a little bit more leverage.

CHRISTOPHER MARTIN: Operator, next question?

OPERATOR: Your next question comes from Tim Klasell with Thomas Weisel Partners.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: Yes, throw my congratulations too on a good execution.

DAVID MITCHELL: Thanks, Tim.

TIM KLASELL: First question is on the sales force. You've added 20 sales people and obviously if I sort of take 80 sales people into your current run rate, you're not running at full productivity yet. How should we think about productivity ramping as you add the new sales reps? Does it take six months or nine months with the new sales process? Can you give us an idea there?

MARK WABSCHALL: Well, the way we track it, and we check to ensure that this is a good investment of our dollars is we start out assuming that a sales rep during the first quarter on average will find 100K and maybe in the second quarter ramp up to a couple hundred K. And that we're not expecting full productivity until they've been here for four quarters.

It takes six months to close a deal on average. Of course, if it's a bigger deal, it takes even longer. And it takes them at least a couple of quarters to understand our value props, the market place and to start building real pipeline. But what we are seeing, of course, there's always an exception, as David mentioned, three reps that inside of their first four months of being here in sales, each generated over a million dollars in license revenue. But I'd love for that to be the norm but we're assuming more modest ramp-up rates.

TIM KLASELL: Okay. Great. And then on the competition side, as you mentioned SAP, Oracle a lot of people are talking about [so on] and integration and what have you. Are you seeing them more in the initial phases of a competition and if so, how far are they making it? Are they making it to the final stages at all?

DAVID MITCHELL: We're not really seeing them in the initial phases other than our customers and our prospects certainly ask us in terms of compare and contrast, you know, what's the value of a webMethods in an environment where, you know, NetWeaver may be effective life somewhere down the road.

What we're finding is that these large customers and I'm talking about the largest companies in the world Fortune 100 companies tend to look at webMethods as the center of their architecture; where you see a line connected out to an SAP part of the infrastructure. But SAP for that largest of large customers tends to be a smaller part of the overall infrastructure, which is very heterogeneous in scope. And so it is more of a webMethods and my SAP strategy as opposed to an "OR."

Oracle, on the other hand, we still see them because they don't have a product, they have a lot of good marketing material. And they do rely on us in terms of an OEM relationship, in terms of their PeopleSoft/J.D. Edwards customer base. I think over time you'll see them go down the similar route. And bottom line is they're going to spend a lot of time integrating their own ERP suite while we continue to be experts at integrating the enterprises of their largest customers.

TIM KLASELL: Great. Thanks a lot, guys.

CHRISTOPHER MARTIN: Operator, next question?

OPERATOR: Your next question comes from John Walsh with Prudential.

JOHN WALSH, ANALYST, PRUDENTIAL EQUITY GROUP: Good afternoon, fellas. A couple of questions. The first is the, could you elaborate on the value based pricing, how prevalent it is, maybe a good example of where you've seen a kind of add-on sales after initial value-based pricing project?

DAVID MITCHELL: We don't guide anybody in terms of, you know, how many of those deals we're doing but I will tell you that we're seeing them far more frequently than we have over the last couple of quarters. Rich, why don't you talk about this?

RICH CHIARELLO: Well, especially with the line of business is involved. Their biggest concern is solving the equation of return over investment. Their biggest fear is if they procure it the usual way that they would have to come back and ask their Board for more money because they're trying to configure something that doesn't exist. So it's especially appealing when the line of business is involved to know that for a flat fee their project is in essence covered. And so that enables us to create an ROI that they can count on. And so I would say that, you know, the highest percentage of those certainly more than half of the deals that are done to lines of business are on a project and a project-repeating basis.

DAVID MITCHELL: We're also finding that in those proposals we don't get into, you know, a negotiation about multiple lines of business, multiple projects, because this is coming out of that line of business manager's budget and they're not that interested in funding the entire business. And so they tend to focus very much on their project.

JOHN WALSH: Can you can give us a --

DAVID MITCHELL: Good for us because that sets it up like kind of an annuity relationship with that client.

JOHN WALSH: Could you give us a sense then of the mix of deals in a given quarter or time frame that are line of business based versus more of the technology based?

DAVID MITCHELL: We strategically decided to go in this direction because we knew that this would be the case. I will tell you that it's still early days in terms of some of the response, but I will tell that you I'm very pleased with how many project based licenses we're doing. We'll talk more about that in coming calls.

JOHN WALSH: Okay. Great. Any further details you can give on the million dollar plus, any deals over two or new versus existing of the $6 million-plus deals?

DAVID MITCHELL: I believe all six were existing. Two were new? I'm sorry, two were new, four were existing.

JOHN WALSH: And any larger than 2 million?

DAVID MITCHELL: We don't give that kind of guidance. Sorry, John.

JOHN WALSH: Okay. Great. Thank you very much.

CHRISTOPHER MARTIN: Operator, next question.

OPERATOR: Again, if you would like to ask a question, you may press star then the number one on your telephone keypad. Your next question comes from Derek Wood with Pacific Growth Equities.

DEREK WOOD, ANALYST, PACIFIC GROWTH EQUITIES: Hi. Can you give us an update on how the sales transformation is going in Europe? And how ramped up the sales people are there for showing the Fabric product?

14044360533

DAVID MITCHELL: I'll let Rich address that but I tell you, I was over there this quarter and that team has just got their hair on fire right now. They really get this process-centric approach. And with three new reps doing over a million dollars of new customer process-centric led deals, the word's getting around pretty fast and our recruiters are just getting an influx of lots of resumes. Rich?

RICH CHIARELLO: Probably the most interesting thing is one of the folks who had the success came directly from Tibco.

DAVID MITCHELL: That's right.

RICH CHIARELLO: And so his impression was he thought he died and went to heaven, that he had this candy shop work of integrated technology that contrasted with, you know, a BPM staffware product that maybe one day will be integrated, et cetera. And [inaudible] it will be very, very effective because it comes down to not really having to know the speeds and feeds of our technology.

It comes down to being able to understand what is the customer's biggest business process that's broken; whether it's a claims process or a hiring process or an order to book process. And we're able to very quickly, you know, mock up that process and show the lines of business how we could monitor, you know, solve it and monitor it.

Any complex business process usually has so much exceptions that fall out that most companies have 40, 50 people, human beings that they're using looking for lost orders; looking for lost applications for insurance. So, it's a very ripe area and it's easy for you to justify a capital investment. So, they're able to come on board and understand how to go find these business problems. And then the technical team's able to basically show the customer, you know, what life could be like.

And so Europe, I would say, is doing fine. it's out leading the pack in some aspects of understanding that new world and how to capitalize on it.

DEREK WOOD: Great. How do you typically see European seasonality in the back half of your fiscal year?

DAVID MITCHELL: December is always a good quarter. I mean every year, we always get warned that the summer time is going to be the killer, and every time we seem to have a pretty good summer in Europe. I think that last year, we had a huge deal in the December quarter in Europe with a large bank, and I don't expect them to replicate that deal, although we certainly have those kinds of transactions in our pipeline. It would be great if one of those comes down but we're not reflecting that in our guidance.

So, I think December you'll see traditional budget activity with most corporations that are global will be the same in terms of how they behave in Europe as they will North America. Keep in mind that both North America and Europe are growing on a six-month basis. So we're going to continue to see progress in Europe. And I think our March quarter where compensation accelerators start to take effect, you're going to see pretty good performance.

DEREK WOOD: Great. Final question around partnerships. You say you're pushing out more professional services revenue to your system integrated partners. Can you talk about which ones you're seeing the most traction with?

RICH CHIARELLO: It's important to understand the piece that we're keeping is the high level consulting, the business practice consulting, methodology, architectural work. I would say across the board, some of the other work that we don't become competitors with our partners, some of the other work is being distributed across all the usual suspects, Accenture, BearingPoint, Tata, Deloitte, Cap Gemini, et cetera.

What's changed is our ability to create a professional services organization and a methodology that enables us to move upstream and be able to ensure the customer's success through the account management and architectural review.

DEREK WOOD: Does that mean you expect to build up your professional services organization?

DAVID MITCHELL: We'll continue to do the strategic level of architectural design and project management for our largest customers, our tier one customers, and as we continue to expand the margins on that business, we'll continue to invest in that business. To the extent it makes our customers successful and it continues to show them a path to buy more licenses.

DEREK WOOD: Thank you.

DAVID MITCHELL: Is that the end of the questions?

OPERATOR: Yes, sir, there are no further questions at this time.

DAVID MITCHELL: Okay. Well thanks again for everybody's time. Again, I want to say thank you to the **webMethods** global team. And look forward to seeing any of you that wants to come visit us at our user conference down at Integration World in Atlanta in November. And we'll talk to you next time. Take care.

OPERATOR: This concludes today's conference call. You may now disconnect.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

Document FNDW000020051108e1ap002hs

Q3 2006 webMethods, Inc. Earnings Conference Call - Final

10433 words
23 January 2006
Voxant FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: Good afternoon. My name is Corey, and I will be your conference operator. At this time, I would like to welcome everyone to the webMethods fiscal third-quarter earnings release conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. (Operator Instructions).

I would now like to turn the call over to Mr. Christopher Martin, Vice President of Investor Relations.

CHRISTOPHER MARTIN, VP - IR, WEBMETHODS: Good afternoon, everyone, and thank you for joining us. My name is Christopher Martin, Vice President, Investor Relations at webMethods.

The purpose of today's conference call is to discuss our third-quarter fiscal year 2006 financial results. Joining me today is David Mitchell, our President and CEO, and Mark Wabschall, our Chief Financial Officer. Rich Chiarello, our Chief Operating Officer, will also be joining us for the question-and-answer portion of today's call.

The press release we issued this afternoon regarding our results is available on our website -- that is www.webMethods.com [http://www.webMethods.com]. Our press release will also be furnished to the Securities and Exchange Commission (technical difficulty) Form 8-K.

Before we begin, please note that this conference call is being broadcast over the phone and via a live webcast. This call is being recorded, and will be available for replay on our website or by dialing the following numbers -- 1-800-642-1687 in North America, and 1-706-645-9291 outside of North America. The confirmation number is 389-6137, and the conference call replay is available through January 27, 2006.

As we will provide non-GAAP financial information in this call, please refer to our earnings release for a reconciliation of that information to GAAP measures; explanations of why our management uses those measures; and cautions on the use of the non-GAAP information, including material limitations associated with the use of our non-GAAP financial measures.

During the course of this conference call, management may make comments which are forward-looking in nature. These comments are intended to be forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These projections and other forward-looking statements regarding expectations may include comments regarding future business and financial metrics, our pipeline, future cost savings and expense levels, costs of legal compliance matters or internal control matters, anticipated results of marketing and selling models, and expectations of future financial performance, including total revenue and license revenue, operating margin, anticipated charges, net income, and non-GAAP earnings per share. Any forward-looking statements are subject to various risks and uncertainties that could cause the actual results of webMethods to differ materially. Please refer to the discussion of risks and uncertainties in webMethods' earnings press release and SEC filings. Specifically, review the discussion of factors that may affect future operating results in webMethods' most recent Forms 10-K and Form 10-Q, which are on file with the SEC and available electronically through EDGAR or a link on our Investor Relations website. These forward-looking statements should not be viewed as a guarantee of or a commitment to any action or result, and our actual performance may differ materially from those measures indicated in our forward-looking statements. These statements reflect the beliefs of management based on information available to us on January 23, 2006, and webMethods does not undertake any obligation to update or correct any forward-looking statements due to the

AJS000131

[occurrence of events] after this call.

I would now like to turn the call over to David Mitchell, **webMethods**' President and CEO. David?

DAVID MITCHELL, PRESIDENT, CEO, **WEBMETHODS**: Thanks, Chris. Good evening. Thank you all for joining us. This quarter marked another strong performance in which we were able to report GAAP EPS of $0.10 and non-GAAP EPS of $0.08, which exceeds the guidance ranges we provided to you on October 26 of $0.04 to $0.07, and $0.04 to $0.08, respectively. This represents our second consecutive quarter of record profitability and sixth consecutive quarter of overall earnings growth.

A year ago we set an objective to achieve double-digit non-GAAP operating margins by the end of our fiscal year. I'm extremely pleased to report that we reached this objective one quarter ahead of schedule. Specifically, we reported non-GAAP operating margins of 10%, a very significant improvement versus the year-ago figure of 1.6%. Keep in mind this was accomplished while we went through a process of retooling our product line into an integrated suite call **webMethods** Fabric, the upgrading of our field sales organization, and the realignment of our cost structure while growing total revenues for the year.

Our total revenues for the quarter were 52.5 million, and our total license revenues were 22 million. Both these figures met the high-end of the guidance ranges we provided to you on October 26 of 50 to 53 million, and 20 to 23 million, respectively.

I would like to now turn the call over to Mark Wabschall so that he can provide some additional detail on the financial results of the quarter. Mark?

MARK WABSCHALL, CFO, **WEBMETHODS**: Thanks, David, and good evening, everyone. As David indicated, this past quarter, **webMethods** generated record profits and significantly improved its operating margins. This accomplishment was a result of our continued focus on operational efficiencies and our ongoing objective to running a profitable enterprise software business.

Total revenues for the third quarter were 52.5 million as compared to 49.2 million in the prior quarter and 55 million in the prior year's third quarter. This represents a 7% sequential increase and a 4% year-over-year decline. For the first nine months, our total revenues were 149.4 million as compared to 147.7 million in the first nine months of last fiscal year. This represents an increase of 1% as well as the highest level revenues in the Company's history for the first nine months of the fiscal year.

License revenue for the third quarter was 22 million, which represents 42% of total revenue. This compares to license revenue of 19.4 million in the prior quarter and 26 million in the prior year's third quarter, and represents a 13% sequential increase and a 15% year-over-year decline. For the first nine months, total license revenues were 59.8 million as compared to 64.6 million for the first nine months of last fiscal year. This 7% year-over-year decline was primarily due to our Japanese business, which has not yet recovered to its historical license revenue levels.

Professional services revenues for the third quarter were 11.6 million as compared to 11.3 million in the prior quarter and 11.9 million in the prior year's third quarter. This represents a 3% sequential increase and a 2% year-over-year decrease.

Maintenance revenues for the third quarter were 18.9 million as compared to 18.5 million in the prior quarter and 17.2 million in the prior year's third quarter. This represents a 2% sequential increase and a 10% year-over-year increase. Year to date, our maintenance revenues have increased 18% when compared to the first nine months of last fiscal year.

Now, looking at total revenues by geography, Americas revenues for the third quarter were $31.7 million. This is a 3% sequential increase, and flat when compared to last year's Q3. Year to date, the Americas revenues grew 4% to 92.7 million when compared to the first nine months of last fiscal year.

International revenues in the third quarter were 20.8 million, or 40% of total revenues. Revenues from EMEA were

15.2 million, which represents a 25% sequential increase and a 10% decrease year over year. Year to date, EMEA revenues grew 8% to 38.1 million when compared to the first nine months of last fiscal year.

Asia-Pacific revenues, excluding Japan, were 3.8 million. This represents a 9% sequential increase, and a year-over-year decrease of 17%. Year to date, Asia-Pacific revenues grew 2% to 11.4 million when compared to the first nine months of last fiscal year.

Japan revenues were 1.8 million, representing a 33% sequential decrease and a 15% decline when compared to last year's Q3. *Year to date, Japan's revenues declined 40% to 7.2 million when compared to the similar period* last fiscal year. Japan is the only region that did not have an increase in revenues for the first nine months of fiscal year 2006, as it was negatively impacted from the disruption in its business due to the problems we encountered earlier at the end of last fiscal year.

We closed four contracts in the quarter which were greater than $1 million. Three of these transactions were in the United States, and one was in Europe. No single customer represented 10% or more of total revenue. Our average deal size of transactions over $100,000 was approximately 500,000, which compares to 400,000 in Q2 and 550,000 in Q3 of last year.

Financial services, government, and manufacturing continue to be our strongest sectors, consistent with prior quarters. Approximately 55% of our booking in the quarter were from existing customers including Adobe, [Alinta], Johnson & Johnson, Johns Manville, PT Telkom Indonesia, and the U.S. Department of Navy. We added 40 new customers, which included companies like Aurora, Encover, Genzyme, Integrated Device Technology, Og Vodafone, [Scotia Gas Networks], [Time BA], and the U.S. Department of Transportation. Approximately 35% of our bookings in the quarter were influenced by our partners.

Moving now to our gross margins -- we achieved total gross profit of 38.5 million for the third quarter as compared to 34.8 million in the prior quarter and 40.3 million in the prior-year period. Gross margin was 73% of total revenues as compared to 71% in the prior quarter and 73% in last year's Q3. Year to date, gross margin was 71% as compared to 69% for the first nine months of last fiscal year.

Margins on professional services and maintenance were 57% as compared to 55% in the prior quarter and 53% in the prior-year period. Total operating expenses for the third quarter were 34.3 million as compared to 33 million in the prior quarter and 40.7 million in last year's Q3. This represents a year-over-year decrease of 16%. Year to date, operating expenses have declined over $15 million or 13% to 102.2 million when compared to the first nine months of last fiscal year. We ended the third quarter with approximately 790 employees, which compares to approximately 800 at the end of Q2 and 800 one year ago.

Sales and marketing expenses were 19.5 million for the third quarter compared to 17.1 million in the prior quarter and 22.8 million in the prior year period. During the quarter, we incurred approximately 1 million for the cost of our annual users conference, which was in line with the guidance we gave in October 2005. We ended the December quarter with approximately 80 quota-bearing sales reps.

Research and development expenses were 9 million for the third quarter compared to 10.1 million in the prior quarter and 10.9 million in the prior-year period. We continue to leverage our India development center, where we now employ approximately 18% of our worldwide R&D staff.

G&A expenses were 5.9 million compared to 5.4 million in the prior quarter and 7.1 million in the prior-year period. Last year's G&A expenses including auditing and consulting fees related to the internal investigation of our Japanese operations.

Restructuring and other related charges in the third quarter was comprised of $117,000 reduction in the accrual for excess facility costs to reflect future payments expected to be received under sublease agreements entered into during the third quarter. As a result, our third-quarter operating income was 4.1 million as compared to 1.8 million in the prior quarter and an operating loss of 386,000 in the prior-year period. Operating margin for the third quarter was 8% as compared to 4% in the prior quarter and a negative 1% in the prior year third quarter.

Operating income on a non-GAAP basis for the third quarter was 5.3 million as compared to 3.5 million in the prior quarter and 874,000 in the prior-year quarter. Operating margin on a non-GAAP basis for the third quarter was 10% as compared to 7% in the prior quarter and 2% in the prior-year third quarter. Our non-GAAP results for the third quarter excludes $599,000 in amortization expense of acquired intangible assets; 661,000 in amortization expense of the deferred warrant charge; and the 117,000 reduction in the accrual for excess facilities costs.

Net interest and other income in the third quarter was 1.5 million as compared to 993,000 in the prior quarter, and 560,000 in the prior year quarter.

Income tax expense in the third quarter was $70,000, which was due to tax expense that could not be offset with net operating losses generated in prior years. Non-GAAP income tax expense was approximately 2.4 million, which assumes an effective tax rate of 35%, and excludes the benefit of offsetting taxable income by the utilization of approximately 230 million of net operating loss carryforwards generated in prior years.

Our third quarter GAAP net income was approximately 5.5 million or $0.10 per share as compared to 2.6 million in the prior quarter or $0.05 per share, and 46,000 or breakeven in the prior-year period. Our non-GAAP net income for the third quarter was 4.4 million or $0.08 per share, which was higher than the 2.9 million or $0.05 per share reported in the second quarter and the 932,000 or $0.02 per share in the prior-year third quarter. Today's earnings press release contains further information on the reconciliation of GAAP to non-GAAP results.

The basic weighted average shares outstanding during the quarter totaled approximately 53.8 million, and the ending share account was approximately 54 million. The fully diluted weighted average shares outstanding during the quarter totaled approximately 54.4 million.

With respect to the balance sheet, we ended the quarter with approximately 148.9 million in cash and marketable securities, representing an increase of 900,000 as compared to the prior-quarter balance. Net cash provided by operating activities was 1.4 million in the third quarter and 4.3 million for the nine months ended December 31, 2005 as compared to 7.4 million used in operating activities for the nine months ended December 31, 2004.

DSOs for the third quarter were 83 days sales outstanding as compared to DSOs of 75 days in the prior quarter and DSOs of 85 days in the prior year's third quarter. Total deferred revenues as of December 31, 2005 increased by approximately 1.2 million to $45.8 million.

I will now provide some forward-looking guidance. Before doing so, I would like to remind everyone of the comments Chris Martin made at the beginning of this earnings call regarding forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the beliefs of management based on information available to us on January 23, 2006, and we are not undertaking any obligation to update these numbers or provide additional refinement.

We expect total revenue for the fourth quarter of fiscal year 2006 to be in a range of 52 to 55 million. We expect license revenues to be in the range of 21 to 23 million. We expect maintenance revenue to be approximately 19.5 million, and services revenue to be in the range of 11.5 to 12.5 million. Net interest and other income is expected to be approximately $1 million. The effective income tax rate on a GAAP basis is expected to be 2% of pre-tax income. EPS on a GAAP basis is expected to be in the range of $0.05 to $0.10 per share.

Included in our GAAP operating results, we expect approximately $600,000 in amortization of intangibles relating to the October 2003 acquisitions. In addition, we expect approximately $500,000 in amortization of deferred warrant charges. This will be the last quarter that we'll be incurring this non-cash charge, as the deferred warrant charge will be fully amortized by March 31, 2006.

Again, these forward-looking statements are management's beliefs based on currently available information, and should not be taken as a guarantee of future results, which may differ materially as a result of a variety of factors discussed in our earnings release and our latest Form 10-K and Form 10-Q filed with the SEC.

Now, I'd like to turn the call back over to David.

DAVID MITCHELL: Thank you, Mark. As you can see from our results, our performance has improved significantly from where we were just one year ago. [As we reported] our second consecutive quarter of record profits and our first-ever quarter of double-digit non-GAAP operating margins, the progress that we are making is clear. I want to say thank you to the entire webMethods global team on another great quarter.

Over the past year, realigning our cost structure to better support our business objectives has been the top priority. It's important to note that this wasn't simply a cost-cutting exercise, as our total headcount remains approximately the same as it was a year ago. However, by continuing to take a disciplined approach to how and where we make investments in our business, we have been able to reduce our total operating expenses in the first nine months of this fiscal year by more than $15 million when compared to the same period one year ago. Keep in mind that we accomplished this while significantly improving our overall performance.

Needless to say, balancing these two objectives was a challenging process that few management teams could have successfully implemented. I'm proud to say that our team was able to accomplish both of these goals. As I said earlier, we successfully introduced a new major product release in webMethods Fabric. At the same time, we upgraded and added to our worldwide field organization with a team of professionals who understand how to follow and execute on our solution selling approach. This approach involves targeting our sales and marketing resources at both the IT professional and the line of business executives in our core vertical markets.

Of course, we had to do all this while realigning our cost structure in order to provide us with an opportunity to expand our EPS consistently quarter to quarter. Even though we have made tremendous improvement with our cost structure, this management team remains resolute to continue to find more efficient ways to run our business, and will remain committed to our discipline for managing the investments in our business.

It is with this foundation that we expect to build upon our existing leadership position and to capitalize on two of the most important trends in our industry. First is the mainstream adoption of SOA by the largest companies and government agencies in the world we're seeing today. Second is the aggressive focus these organizations are taking to improve the processes that run their respective businesses.

As a result, we are seeing our customers combining their SOA strategy with their pressing need to improve their key business processes. As a matter of fact, a recent survey conducted by webMethods found that more than half of line of business executives that we talked to now view SOA as being critical to their success.

Simply put, the reuse of existing assets, the benefit of which our customers are receiving today, has become an enabler for their business process improvement. In fact, our customers are telling us that they are getting 30 to 70% reuse in their SOA projects today.

If we look back at our October 2004 analyst meeting, we stated then that our intent in creating the webMethods Fabric product suite was to capitalize on the need for better alignment between the IT departments and the line of business. We recognized early on that SOA combined with business process management were the necessary tools for achieving this objective.

As a result, we are seeing increasing leverage in our business as webMethods Fabric can -- one, help the IT department justify and gain support for their SOA initiative from the line of business management team; and two, focus the IT departments and the line of business managers on products that have best in class SOA and BPM technologies fused together into a seamless platform. In other words, webMethods Fabric is uniquely positioned to help these organizations obtain their ultimate objective of business process improvement.

The value of webMethods Fabric far outweighs the sum of its individual components. Our sales force is benefiting from a single integrated product, designed to simplify the task of integrating, assembling, and optimizing key business processes. This contrasts sharply in competitive situations with the alternative approach, whereby the customer's IT organization must become the systems integrator, and is forced to cobble together dozens of separate products to accomplish the same task.

Our sales reps tell us that they can defeat the competition because they can position webMethods Fabric as a total solution for business process improvement, and then demonstrate that in a proof of concept.

Net net, WebMethods Fabric is the differentiator. In fact, not only are the sales force, customers, and partners recognizing this, but so is the industry. In addition to receiving high praise from several well-known industry analysts, webMethods was recently awarded top honors in the 2005 SOA Web Services Journal Readers' Choice Awards. The product categories that webMethods won included Best SOA, Best Web Services Integration Tool, Best Integrated Services Environment, Best SOA Business Process Management Engine, Best SOA Legacy Adapter, Best SOA Automation Tool, and Best SOA Management Platform. These were the results accumulated from their 17,000 readers, and were against companies like IBM, BEA, Oracle, Microsoft, and Tibco.

The value of our approach was also driven home when we hosted our fourth annual user conference -- Integration World 2005. Let me give you an example. Alex Matthews is the chief architect for one of ABN Amro's most important business units. He was at the conference as a keynote presenter to discuss how ABN Amro had implemented our BAM solution to streamline their payment processes.

However, he also told a broader story that could be applied to any IT professional within any industry. The most important point that Alex made was around how helpful the deployment of webMethods BAM was in selling his overall SOA strategy within IT and across the business. BAM brought something concrete to the discussion -- the ability to show the business user something he or she can readily understand, visibility into their processes as they happen. So you could call it SOA in action. To the sponsors of the business, IT appears to offer better value when it solves a business process issue, and not necessarily just focused on the interoperability and IT problems.

SOA is not an initiative that IT can drive on its own. The SOA strategy must be aligned with the business strategy. Throughout the conference, numerous customers addressed this point with case study presentations highlighting the business value offered by webMethods Fabric, which has allowed their IT organizations to operate more efficiently while delivering greater value to the business.

The launch of webMethods Fabric has allowed our customers to readily tout their successes with our products. The architectural design and brainpower that went into the creation of this product suite is attributed to our product development team.

One of the key contributors to this effort was our Chief Architect, Mark Breissinger. Many of you have seen Mark present, and I will tell you, he's one of the most sought-after resources from both our customers and sales force alike. After careful evaluation of both external and internal candidates for the position of Chief Technology Officer at webMethods, it became clear that the most qualified person for that position was Mark. Today, I'm pleased to announce that Mark has been promoted to webMethods' CTO.

In closing, what we have done with webMethods Fabric is the natural evolution of business integration which, as we have stated before, uniquely positions us to capitalize on our customers' ultimate objective of business process improvement. In my meetings with customers, I'm continuously reminded how webMethods Fabric gets their project into production quicker with fewer resources, and how they are achieving real and measurable process improvements. And it is our unique approach and traction that is gaining with our customers and new prospects which gives us confidence that we will continue to grow our business.

To that end, we will continue to expand our sales force and indirect channels for greater market penetration and increased revenues. We will target customer SOA and business process improvement initiatives with increased vigor, as these two important trends drive incremental demand to our market, and we will continue to capitalize on the differentiation of webMethods Fabric, as well as our subject matter expertise around integration, SOA, BPM, BAM, and our methodologies to ensure our customers get guaranteed success (technical difficulty)

AJS000136

1404436054

This management teams disciplined approach and execution is delivering solid results. It will be our focus as a Company on this strategic growth plan that will continue to deliver positive returns for our staff, our customers, and our shareholders. Operator, would you please open up the call for questions?

OPERATOR: (Operator Instructions) John Rizzuto, Lazard Freres.

JOHN RIZZUTO, ANALYST, LAZARD FRERES: (technical difficulty) everyone, and a very good quarter again. A couple of questions, Mark, on the model -- just a couple of things. You said about 17% now of your R&D you are getting from India -- that's the R&D staff. So it's gone up a little bit, and that's --

DAVID MITCHELL: It was 18%, John --

JOHN RIZZUTO: (technical difficulty) Okay, great.

MARK WABSCHALL: Up from 15 last quarter.

JOHN RIZZUTO: Right. And that's down to $9 million from the $10 million. Is there more leverage here? What's the right run rate to kind of look at this line item going forward? And do you see that growing again?

MARK WABSCHALL: Yes. Part of that -- of course, the India moving -- having our headcount increase in India versus in Silicon Valley or here in Fairfax certainly benefits, because you get that 2.5 to 3 to 1 benefit. But we also had a major product release that went out over the last quarter or so. And as a result of that, we had incurred in previous quarters a high amount of contractor R&D help in doing a lot of the Q&A testing. And so when we were able to release Fabric this last couple of quarters, we were able to see a decline in that. But I think going forward, you know, we don't really give guidance on specific line items. But however, we're going to continue to invest in our product, in our sales engine, as well as our P.S. group -- professional services group.

DAVID MITCHELL: And keep in mind -- that's a percent of headcount number.

JOHN RIZZUTO: Right. That's what I figured. Overall R&D only, right -- (multiple speakers)

DAVID MITCHELL: Right. And we're going to continue to do more and more in India. We've opened up our own offices there. And one of the things that is interesting is that we are able to attract some pretty best-in-class talent, given the fact that it is a webMethods operation and not outsourced to one of those third parties. And we're seeing great results. And we're going to give them more and more to do.

MARK WABSCHALL: And just to follow up on the R&D, we actually did have two small restructurings in Q1 and Q2 which did impact the R&D group. So we were able to reduce some of our headcount costs in Q1 and Q2 that we received the full benefit this quarter.

JOHN RIZZUTO: Okay, good. In the sales and marketing line item, how much of that do you attribute to nonrepeatable -- in other words, [to] conference or -- conference, primarily, I guess would be in there --?

MARK WABSCHALL: We incur about $1 million every year for our annual users conference, which of course hits this quarter. So we will not have that cost going forward. However, we continue to have customer events. And we do have marketing programs throughout the year. But that is a large onetime impact annually.

JOHN RIZZUTO: Okay, great. And then David, in this quarter, are there any notable competitive wins and/or replacements that you can share with us and give us some details on?

DAVID MITCHELL: I think that what's interesting about the quarter is that, again, government and financial services continues to be very strong for us. In the government, we don't seem to see any of the traditional competitors that you all look at. And so we continue to kind of grow that franchise, particularly in the DOD and intel verticals of federal government.

But what's (technical difficulty) our government business is that we've expanded it to international, and we're seeing great traction and some significant deals with the governments in the UK and other parts of the world. So we continue to see great traction there.

In terms of notable wins, we talked about a couple of them in the press release. There's a lot of stuff that we do which is classified that we cannot talk about.

In terms of the financial services sector, we continue to see great demand, particularly around corporate banking, where they are interested in streamlining their payment processing operations. This was highlighted in the user conference with ABN Amro, but we continue to see great traction with all the major banks. And we've talked about them in the past, and we continue to win good business there.

Again, competition isn't the traditional vendors. And in fact, what's interesting about that is one of the competitors that you all track, Tibco, seems to have a good FS practice, but we never seem to see them in any of the FS deals, which tells us that we're probably in different parts of that market. I don't know, Rich, is anything notable that jumps off the page -- it was consistent project license deals --

RICH CHIARELLO, COO, WEBMETHODS: Project-based licenses where Fabric was a differentiator -- and I think it's epitomized by the award we got for the SOA awards, that even though we competed with some niche vendors where all the did was, say, BPM, or all they did was a certain piece of SOA -- we received all those awards, where our play, as in one integrated product, could do more than just any one of those things.

So to me, that validation from the Readers' Award really sums up what the sales force is finding when they go out and compete -- that customers really are looking for a product to solve many of these problems, and that continues to be our differentiator in all these wins.

JOHN RIZZUTO: Great. Thanks a lot, and congratulations.

OPERATOR: John Walsh, Prudential.

JOHN WALSH, ANALYST, PRUDENTIAL: First question is on the sales force headcount. That stayed flat at [8]. I know it's been pretty consistently going up on a [net five] basis. Could you tell me -- is that just lack of hiring, or was there some hiring as well as some departures?

RICH CHIARELLO: Well, you only want to hire people that are competent salespeople, that have something in the pipeline to close. December really makes it challenging to pull out somebody, because most companies end their fiscal year in December. And so the toughest one to show growth in is the December quarter. Subsequent to that, you would expect for people to be starting in January versus December. No one is going to walk away from their year-end busiest month of the year.

DAVID MITCHELL: At least the good sales reps, which is the ones that we want.

JOHN WALSH: Okay. So it was mostly lack of hiring?

DAVID MITCHELL: That and Europe. As we've stated in the past, we continue to make upgraded changes to the type of humans that we want in our sales force that can really understand the solution selling process, who understand the process-centric view to these accounts. And in Europe, things just move a little bit slower. So I would say primarily, it was seasonal.

JOHN WALSH: Okay. And then on the indirect channel, again, the mix was slightly lower than last quarter. But can you give us just an overall update on the focus or any progress that you make with SI specifically in the [invec] size?

RICH CHIARELLO: Well, we continue to have not just the existing SIs, but new ones that you'll be hearing about over the next several quarters -- showing interest in our technology, and wanting to continue to find ways to go to

AJS000138
1440443503443

market with us. And so I think, traditionally -- I think last quarter, we were approximately 40% staying around the --

DAVID MITCHELL: [33]?

RICH CHIARELLO: -- 33% this quarter -- it's 40% for Q3, right --? So we seem to go up or down, plus or minus is 5 to 7% quarter to quarter, and that's just based, I think, upon the magic of small numbers.

JOHN WALSH: Okay. But is there any kind of -- whether it's SOA and the visibility and the buzz around SOA -- will that potentially accelerate going forward the interest in the SIs?

RICH CHIARELLO: Actually, the thing that's creating interest in the SIs for us is when they look at the technology, they see the ability to build intellectual property with our technology. So they look at Fabric and say -- they can create repeatable intellectual property out of business rules, business models, out of optimized dashboards -- and of course reusable services out of our Web service approach. They see that as a way of using it in one instance, and then being able to go to subsequent customers in that same industry with more intellectual property to sell and improve their margins -- [they're] finding that very attractive.

JOHN WALSH: Okay, great. Just one last final one. Japan -- the recovery obviously has been pretty sluggish here. How should we think about Japan going forward? And I know last quarter, you talked about some changes in management. Is everybody still there, and should we expect better things going forward?

DAVID MITCHELL: I'll let Rich add his perspective, but I will tell you that we continue to be very cautious and methodical about how we're rebuilding our Japan business. We take very seriously the issues that we ran into over a year ago. And we're making sure that we build a solid business there that can continue to invest in the great customers that we have there, but also expand their market penetration. But we're going to do so in the right way.

RICH CHIARELLO: You know, we're very committed to that market. And the customers haven't gone away. The opportunity certainly hasn't gone away. But change happens much slower, if you will, in that part of the world than it would, potentially, say, in a North America. And so again, we don't want to create another problem by rushing to haste in Japan.

And things always take a little bit longer than you would like. But when you continue to see the growth in places like North America and EMEA, you realize that you must have a winning combination of product, sales approach, and something interesting that the customers are willing to spend money on.

OPERATOR: Tim Klasell, Thomas Weisel Partners.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: First question, can you sort of walk us through what's changing in your sales processes as the suite has rolled out? You know, this time last year, BAM was leading a lot of sales. Is that still the case, or are people sort of taking the broader suite all in one chunk?

RICH CHIARELLO: Well, what's happening is whether you start at the IT side of the house that's looking at building new applications quicker, faster, through SOA or whether you start with the line of business, who has a broken business process and wants to be able to improve that and have visibility -- what happens very quickly no matter where you start is you end up meeting in the account that they recognize the need for all of that.

And so by showing the integrated suite in both of those two marketing approaches, you end up with the customer realizing that what we've created is one product to address both sides of the house. So IT is able to get funding from the lines of business, whether it's to build new systems faster with SOA, or whether it's to improve a broken business process. BAM is an integral part of that, as are as well the web service products that we acquired several years ago and the BPM and underlying integration product that we have had for a while.

DAVID MITCHELL: What's interesting is that we seem to be the only Company in this space right now, the business integration space, where our sales reps are now armed with this solution that can attack the desire of the IT department to go mainstream with SOA and fuse that with an ability to improve the processes of the business,

AJS000139

hence giving the IT department a justification and a priority around their SOA project. And that's something that probably didn't exist a year ago, and it's really started to pick up steam -- you know, the example that I gave in the beginning of the call around ABN Amro -- and that's how that gentlemen justified his SOA was to focus on the BPM and BAM.

TIM KLASELL: Okay, good, good. And then how about Europe? Obviously, that's doing a bit better. How do you feel about the overall macro in Europe? Are things firming up there, or is there just better execution on **webMethods'** part?

RICH CHIARELLO: Well, if you remember the sequence of events, it's a combination of both. The sequence of events was [they] rebuilt North America, rehired all the sales managers -- remember, we're operating in an environment where all the sales directors in the last year have been changed, right? All around the world. The second part was in EMEA. And so they are the next group, the most mature in their tenure with the Company.

And so when you bring in people and you give them a couple of quarters, they're able to sort out who the stars are, who they need to replace, what markets to go after. We're starting to see that in Europe.

Now, Central Europe -- its economy has problems for every industry; software is no different. But we're seeing a good pickup in the pipeline and the ability for the same two markets that I just described before that sell well in North America -- SOA, the IT folks for building systems quicker, line of business, you have got to improve your business process -- that's selling equally well in the Netherlands and in France and in Germany and in London as it is in North Carolina and California, etc.

TIM KLASELL: Okay, good, good. And then one final question here. Congratulations on getting 10% operating margins. How should we be thinking about this going forward as far as your trade-offs of investing in for growth or striving for operating margin improvement? Can you give us maybe sort of a goal, maybe, on the operating margin line, or give us a framework to think about?

DAVID MITCHELL: We're going to continue to drive to and run a profitable business that makes sense for the market and the industry in which we compete. We have offered you guidance into Q4, and that's the best view that we can give you today.

OPERATOR: John DiFucci, Bear Stearns.

JOHN DIFUCCI, ANALYST, BEAR STEARNS: The first question is for Mark. Mark, should we assume that you're still using the same parameters when considering large deals and guidance? In other words, you're not including deals that are above 3 million, because it's too hard to predict when they're going to close?

MARK WABSCHALL: No -- actually, John, the way we do that is -- obviously, we have large, significant transactions in our pipeline, although we take a conservative view when we factor a higher risk variable on larger deals. So those are absolutely in our pipeline, it's just that we factor a lower success rate on these to be conservative.

This quarter, we had four deals over 1 million. I think we had six the quarter before that, and a year ago, we had seven.

DAVID MITCHELL: It just allows us to take a more consistent view to the pipeline. Those big deals are great, and we love them, and we work like heck to get them closed. But at the same time, we can't depend our quarter on them. And so by applying this higher risk factor, we're able to more consistently perform against the forecast and the guidance that we provide our shareholders.

JOHN DIFUCCI: So those deals -- but a deal -- not even just over 1 million, but over 3 million -- those have always been in guidance and -- are they the same risk factor --

DAVID MITCHELL: Yes.

AJS000140

JOHN DIFUCCI: -- as there is for over 1 million?

DAVID MITCHELL: Yes. I understand that there's probably some confusion around this. I know that one of my competitors talks about this as well.

The bottom line is that some of us have just gotten smarter about this, and we just decided that the big deals are important, but we can't run our business on the big deals. So we really focus the traditional risk variables around the sweet spot of our pipeline. And for the bigger deals, we consider them hopefully upside. There are a significantly higher risk variable applied against them.

I can't get into it with you in terms of what deal equals what. But you can take away from this that the higher it is, the larger it is, the much higher risk variable gets applied to it.

JOHN DIFUCCI: And a follow-up to that -- have any large deals closed since the end of the December quarter?

DAVID MITCHELL: We don't comment on recent quarter activity.

JOHN DIFUCCI: Okay. Just a question for Mark, then -- it looked like cash flow was negatively affected by accrued expenses and other liabilities. Could you just explain that a little bit?

MARK WABSCHALL: Well, I think you'll see that during the quarter, Q3 is -- we have more expenses that we incur during this quarter -- as you saw, our total expense levels went up, so you would expect the accruals to go up as well. But overall, we did generate $900,000 increase in cash. 1.4 million came from cash flow from operations.

So you are right; we did have higher expense accruals. Of course, you would always see that with commissions. Commissions (technical difficulty) Q3 would be higher than they were at the end of Q2. But I would just say it's seasonal variations.

DAVID MITCHELL: Or else [integration].

MARK WABSCHALL: Yes.

JOHN DIFUCCI: Okay. Well, nice quarter, guys.

OPERATOR: Dino Diana, Smith Barney.

DINO DIANA, ANALYST, SMITH BARNEY: Most of my questions have been answered, but you had a nice pick up in the number of new customer adds. Can you talk about the difference in the size of the deals coming through on the new customers versus the existing?

DAVID MITCHELL: The whole approach, especially with new customers -- remember the licensing model I talked about two or three quarters ago was going into project phase? It's especially appealing to the new customers, and especially when they have identified a project, whether it's a line of business or an integration project.

And so what we're trying to do is ensure that we are able to attract the new customers, and you've seen that uptick -- but in a mode where we don't have to try to figure out to what's a fair price between them and us because we won't have any more add-on sales after. The project phase licensing is allowing us to do that -- attract new customers, get the revenue, and actually set the table for follow-on and repeat business.

MARK WABSCHALL: (multiple speakers) beginning of an [annuity] relationship, the new customer always starts off with a project to see how successful you can really make them. The good news is that we are consistently establishing a track record of getting those projects successfully quicker than the competition with fewer resources. So it does create pipeline for us.

DINO DIANA: Okay. And not to beat a dead horse here, just wanted to get a better understanding with Japan, because it obviously is very important thing for the license revenue growth. When you look at the timeline, can you just tell us what exactly you've done there in terms of restructuring; what you need to do; and, understanding that it will take some time, what are the reasonable kind of timelines for when you can get that back up to the 5 million you originally were looking to do I guess a few quarters ago?

RICH CHIARELLO: All I can say is you have to go back and look at what's happened in North America, right? It's a market that we're much more dominant in, and it's taken us -- we changed all the managers at the beginning of the year. And here we are, starting our fourth quarter and we're seeing North America license revenue grow again.

And so I can't give a specific day and time of day as to which that will happen. But it's a process of identifying the right salespeople, sales leaders, and having them build a pipeline. And whether it takes as long to build a pipeline in Japan culturally as it does in North America, can't really say. I can just tell you that the approach in North America is growing, and it's growing in our pipeline. And it's hard pressed to think of any infrastructure enterprise software company that can grow their business in North America that can't eventually have that same success in Japan or other international markets.

DINO DIANA: Right. Can you just give us at least what you've done so far so we can understand --

DAVID MITCHELL: Dino, we are well underway with the process change in Japan. What we're doing is being very cautious and methodical at how we build that business. And our expectation is that we will see similar results in that region as we've seen in other regions like North America, where we are growing year to year on a nine-month basis.

DINO DIANA: Okay. And DSOs, they picked up a bit. Can you just -- anything worth noting there, or is it just a more back-end loaded quarter?

MARK WABSCHALL: I think this was actually more of our traditional quarter. If you take a look at what we've historically had in DSO, we've been around the 83 level for the last couple of quarters, except last quarter, we had dropped down to 75. And part of that was a combination of [record] collections, as well as -- we did have some large deals that were COD, cash up front, or done earlier in the quarter, which we actually received payment on. So I'd tell you it's more in line with what we traditionally run at. It's certainly an area that I'm going to continue to focus on on trying to reduce, though.

OPERATOR: David Hilal, Friedman, Billings, Ramsey.

DAVID HILAL, ANALYST, FRIEDMAN, BILLINGS, RAMSEY: Okay, deferred revenues saw a nice pickup in the quarter. Was that all maintenance or was there any license in there, Mark?

MARK WABSCHALL: Yes, it's predominantly all maintenance. We don't really have that large number of deals that we defer on license.

DAVID HILAL: Right. And as it relates to the large deals, the ones over 1 million, I guess on one hand it was nice to see a good license quarter without too many large deals. I think it shows some good diversification.

But on the other side, I guess I would have expected more large deals, given that the economy has been improving, your product footprint is bigger -- but yet, I [think] it was the lowest number of deals in the December quarter for many years. And I guess, Dave, is there something changing with respect to the end market, or was there is an anomaly of a quarter? How would you explain that?

DAVID MITCHELL: You're hitting the point right on the head, which is -- this is why we apply a significant risk factor to these large transactions, because they are unpredictable, and they kind of jump around all over the map.

The good news is we do have these large transactions in the pipeline, and we are applying a much more sophisticated process that has yielded better success in terms of closure, and we will continue to do so. And we have now established a pretty consistent track record of indicating to our shareholders where we think the business is going to go. Hopefully these large deals will start to become more upside as we move forward.

AJS000142

DAVID HILAL: So if I interpret that properly, are you saying your conversion rates on larger deals has gone up, but the fact that the aggregate number of large deals is down -- does that suggest the pipeline for large deals is smaller?

DAVID MITCHELL: No. We continue to see a healthy pickup in deal sizes within all bands of our pipeline. The large deals tend to close and behave differently versus other deals, and so you just saw some inconsistency in that in the last quarter. And hopefully, we'll get some more closed in the current quarter. They just have longer sales cycles and they're all different. Rich, do you have a perspective on that?

RICH CHIARELLO: Well, I would say the bigger the deal -- even in the largest companies in the world, deals get over seven figures in software, that means you're looking probably at a project that's a $5 million project, even if it was $1 million software sale to the Company. Those deals take much longer not just to win, but sometimes three quarters just to get through the Company's own procurement and budgeting process. And you would anticipate having changed around most of the sales directors and lots of salespeople starting in the last 90 days that the longer sales cycle items like these would take longer to bring to gestation and close.

DAVID MITCHELL: I'm very confident that with this new process, we're really getting a more consistent feel for the closure rates of our deals in every deal band size. And I think the larger deals -- we're just not dependent on them, as the recent quarter performance indicates.

OPERATOR: Derrick Wood, Pacific Growth Equities.

DERRICK WOOD, ANALYST, PACIFIC GROWTH EQUITIES: I guess just a follow-on question to that. I mean, you did have a good Europe sequentially. But on the Americas side, it was only up a few percentage points. Typically, I guess in the Americas, you'd see more of a budget flush in the December quarter. Can you just talk about that, and maybe did you have some deals that were pushed out in the Americas region?

RICH CHIARELLO: Well, I believe we had deals pushed out in all regions. That's the process of having more deals and carrying on fewer of them, and deals kind of get pushed out.

The Americas grew license revenue nine-months, year over year. And so you have to look at the span of -- they may have had a particularly better Q1 or Q2 than they had in the past. What I'm seeing is a pipeline and the ability to generate pipeline and create a sweet spot of deals from the 200s to the 800 range happening every place we've given new sales directors the ability to hire salespeople and a couple of quarters to go out and do that.

So I didn't see particularly any figure slippage or [let] slippage in the number of deals we were trying to close and the ones that kind of slipped out to the next quarter in the Americas.

DERRICK WOOD: Okay. And then you guys have been focusing on increasing sales productivity. Do you continue to see that increase, and do you have a sense for where you're at in terms of sales capacity? Are you at 70% of capacity -- along those lines?

DAVID MITCHELL: We don't get into the details of different capacity metrics. I will tell you that we're very pleased. And I'll let Rich add his perspective as well, in terms of -- particularly around the new sales rep ramps, particularly sales reps that have joined in the last six months or so who come from the BPM genre of companies -- they tend to get this pretty quickly and move quite fast to build new customer pipeline, not existing customers, and get those deals closed. So we're actually quite pleased with the ramp-up in new sales reps.

RICH CHIARELLO: The only other things I would recognize is that there's probably a magic relationship we don't share with the outside world as to how many sales reps per sales manager you want to run with in order to not have the law of diminishing returns. And so I could see us continue to have runway to add sales reps. As we do that, we would also need to add so many sales directors for every x number of sales reps.

DERRICK WOOD: Great. One last question, shifting gears here. It sounds like you're benefiting from a differentiated platform and that your product is gaining priority in some of your customers' budgets. Do you feel like this is specific to your strategy of bringing SOA and line of business and IT into one platform, or are you seeking a broader trend of customers investing in SOA, and actually, instead of just talking about it, putting more dollars towards it?

RICH CHIARELLO: The issue is you could take any technology over the last 10 years -- object-oriented programming, client/server, etc. -- in today's day and age, a technology alone cannot get any funding from IT. And so SOA, if you boil it down from the 30,000 companies that will say they do something with SOA if you Googled them, SOA boils down to reuse. And you can see from the survey that we published at our user week -- our customers brag about the reuse they have been getting over the years even before SOA was coined as a term.

What we are doing is taking the ability to build new systems faster and quicker, and putting a methodology to justify the ROI on that [for] the lines of business. Lines of business are more than willing to invest in the technology once you show them that they can get their systems developed at a lower cost out of IT. And that basically is very appealing right now. And apparently, we have the only technology right now that can make that value proposition work.

DAVID MITCHELL: Operator, we have one more question.

OPERATOR: Gregg Moskowitz, Susquehanna Financial.

GREGG MOSKOWITZ, ANALYST, SUSQUEHANNAH FINANCIAL: Just a couple of questions maybe starting off on these four large deals. Mark, do you happen to have the breakout of new versus existing customers?

MARK WABSCHALL: I don't know if we normally breakout out. I don't have that.

DAVID MITCHELL: The large deals over 1 million are traditionally existing customers, because go back to the model that Rich described to you, which is we get into a new customer, start with a project, get some [successful], and then identify additional projects, hopefully building a much bigger transaction as the [follow-on is] done. In most cases, the $1 million plus deal is always an existing customer. In some cases, we do pick up a new customer in that range, but that's not the commonplace.

GREGG MOSKOWITZ: Right. I think last quarter, there were a couple of new customers, if I remember correctly, out of the six large deals, so I was just kind of wondering roughly. But that does tie in a little bit to my next question just on new versus existing contribution of total bookings. It did seem like on one hand, the existing percentage fell somewhat meaningfully from the Q2. Then again, it was nice to see 40 or so new customers. Just wondering if you can touch on kind of what you're seeing with some of the new customers. It seemed like there was a little bit higher conversion this particular quarter (multiple speakers)

DAVID MITCHELL: Well, I think you're seeing the new customer acquisition, because we've got more reps in the fields who are now starting to ramp into new prospects as opposed to just going into the base. And that's why that percentage came down a bit.

RICH CHIARELLO: If you look at [the three] classifications of deal -- a mid-sized, sweet spot deal from a customer is probably the easiest to pull down, because you've got customers that have growing capacity, and you already know who you are, and maybe you're selling them additional products to round out Fabric -- that's the shortest gestation period.

Now, to a prospect -- a mid-sized deal and a proven project is the next longest sales cycle. They don't know who **webMethods** is -- a typical longer procurement process. And then, of course, the seven-figure and bigger deals take even more time, because even once you win them, many times for these companies, the project becomes so large that it goes through a very long internal purchasing process.

DAVID MITCHELL: A think it's pretty significant to note that we're not dependent on these bigger transactions. We do have an ability to build these bigger transactions in our pipeline, and we're doing so while we're generating record profits, and getting the Company to double-digit operating margins a quarter ahead of our original timeline with basically the same headcount. So we're pretty pleased with the progress that we made, both in the field and internal to the Company.

GREGG MOSKOWITZ: Okay, that's great. And then just one last quick one. I know you said, David, that the federal or the government business was pretty strong in the quarter. I think the last two quarters, it was sort of hovering around 20% of bookings. Just wondering where that came in this time around.

DAVID MITCHELL: 20 to 25%, I believe.

MARK WABSCHALL: Yes, basically our three major markets, which was manufacturing, financial services, and government each came into around 20 to 25 to 30% -- the three of those each did.

DAVID MITCHELL: And keep in mind, government is not just federal. It's pretty exciting to us.

Okay, operator, that's it on the questions.

OPERATOR: Yes, sir.

DAVID MITCHELL: Okay. Well, thank you all for attending this evening, and we look forward to talking to you during the quarter. Take care.

OPERATOR: This concludes today's **webMethods** conference call. You may now disconnect.

Document FNDW000020060206e21n0012y

Q4 2006 webMethods, Inc. Earnings Conference Call - Final

7768 words
27 April 2006
Voxant FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: At this time I'd like to welcome everyone to the webMethods fiscal fourth quarter earnings release conference call. [OPERATOR INSTRUCTIONS] At this time I would like to turn the call over to Mr. Chris Martin. Sir, you may begin.

CHRIS MARTIN, VP, IR, WEBMETHODS , INC.: Thank you, operator. Good afternoon, everyone, and thanks for joining us. My name is Christopher Martin, Vice President, Investor Relations at webMethods . The purpose of today's conference call is to discuss our fourth quarter and fiscal year 2006 financial results. Joining me today is David Mitchell, our President and CEO; and Mark Wabschall, our Chief Financial Officer; Rich Chiarello, our Chief Operating Officer, will also be joining us for the question and answer portion of today's call. The press release we issued this afternoon regarding our results is available on our website, that is www.webmethods.com [http://www.webmethods.com]. A press release also has been furnished to the Securities and Exchange Commission pursuant to a Form 8-K.

Before we begin, please note that this conference call is being broadcast over the phone and via a live webcast. This call is also being recorded and will be available for replay on our website or by dialing the following numbers. 1-800-642-1687 in North America, and 1-706-645-9291 outside of North America. The confirmation number is 7562788. And the conference call replay is available through May 5, 2006.

During the course of this conference call management may make comments which are forward-looking in nature. These comments are intended to be forward-looking statements for the purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These projections and other forward-looking statements regarding expectations may include comments regarding future business and financial metrics, our pipeline, future cost savings and expense levels, cost of legal compliance matters or internal control matters, trends in the market for our products and in the software industry, and expectations of future financial performance including total revenue, license revenue, operating margin, anticipated charges, net income, and earnings per share. Any forward-looking statements are subject to various risks and uncertainties that could cause the actual results of webMethods to differ materially.

Please refer to the discussion of risks and uncertainties in webMethods ' earnings press release and SEC filings. Specifically, review the discussion of factors that may affect future operating results in webMethods most recent Form 10-K and Form 10-Q which are on file with the SEC and available electronically through Edgar or a link on our Investor Relations website. These forward-looking statements should not be viewed as a guarantee of or a commitment to any action or result. And our actual performance may differ materially from those measures indicated in our forward-looking statements. These statements reflect the beliefs of management based on information available to us on April 27, 2006, and webMethods does not undertake any obligation to update or correct any forward-looking statement due to the occurrence of events after this call. I would now like to turn the call over to David Mitchell, webMethods President and CEO. David.

DAVID MITCHELL, PRESIDENT, CEO, WEBMETHODS , INC.: Thanks, Chris. Good evening, and thank you for joining us. I wanted to begin today's call by reviewing some of the financial highlights for the fourth quarter and fiscal year as they represent a number of significant milestones for the Company. Mark will follow with additional details regarding our financial results and operating performance for fiscal year 2006. After that discussion I will provide additional commentary with regard to our strategy and objectives for the new fiscal year.

AJS000146

I'm proud to report that this was our best quarterly and annual performance in the Company's ten-year history. Total revenues for the fourth quarter were $59.4 million, representing our best quarter of total revenue in five years. In addition, our deferred revenue increased approximately $16 million. License revenue for the quarter were 27.6 million. Our best quarter for license revenue in three years. This performance reflects 25% year-over-year organic license revenue growth. With this revenue growth we were able to report GAAP earnings per share of $0.15, exceeding the top end of our revised April 6, guidance by $0.01. This marked webMethods 7th consecutive quarter of year-over-year earnings growth with the past three-quarters producing record profitability.

I'm equally delighted with our performance for the full fiscal year. Total revenues for the fiscal year were $209 million. This was the best annual performance in the Company's history. We also reported annual organic license revenue growth, which, as you know, was a significant corporate objective for fiscal year 2006. All of this was achieved while we reduced our operating expenses by more than $21 million, a 13% year-over-year reduction which allowed us to finish the year with our best ever operating margin performance. In fact, our full fiscal year GAAP earnings of $0.29 represents a $0.64 improvement versus the prior fiscal year when we reported a GAAP loss of $0.35. Despite these savings, total headcount has remained fairly stable versus last year, but includes a 20% increase in quota-bearing reps. What we've proven is that we've become far more efficient about how we use our resources to drive productivity and profitability in the business.

Finally, let me highlight several additional metrics. Since I became CEO in October of 2004, this management team has focused on three primary objectives. Achieve consistent profitability, deliver double-digit operating margins, return license revenue growth to the business. I'm pleased to say that we've delivered on all three fronts. During the later half of today's call, I'll discuss how we plan to build upon this momentum during the current fiscal year.

In the meantime, I want to personally thank the webMethods management team and all of the webMethods employees around the world for their efforts. It was through their dedication and hard work that webMethods was able to deliver the best performance in its history. Let me now turn the call over to Mark. Mark.

MARK WABSCHALL, CFO, WEBMETHODS, INC.: Thanks, David. As David indicated, we ended the fiscal year with the Company's best quarterly and annual financial performance ever. Total revenues for the fourth quarter were 59.4 million as compared to 52.5 million in the prior quarter and 52.9 million in the prior year's fourth quarter. This represents a 13% sequential increase and a 12% year-over-year increase. For the fiscal year our total revenues were 209 million as compared to 201 million in last fiscal year. This represents an increase of 4% as well as the highest annual revenues in the Company's history.

License revenue for the fourth quarter was 27.6 million, which represents 46% of total revenue. This compares to license revenue of 22 million in the prior quarter and 22.2 million in the prior year's fourth quarter and represents a 26% sequential increase and a 25% year-over-year increase. For the fiscal year total license revenues grew to 87.4 million from 86.5 million for last fiscal year. Professional services revenues for the fourth quarter were 12.5 million as compared to 11.6 million in the prior quarter and 12.8 million in the prior year's fourth quarter. This represents an 8% sequential increase and a 2% year-over-year decrease.

For the fiscal year our professional services revenues were 47.2 million as compared to 49.2 million in the prior fiscal year. This annual decline was primarily attributable to lower subcontractor revenue as we have either shifted more of this business to our own employees or to our system integration partners. Maintenance revenues for the fourth quarter were 19.2 million as compared to 18.9 million in the prior quarter and 18 million in the prior year's fourth quarter. This represents a 2% sequential increase and a 7% year-over-year increase. For the fiscal year our maintenance revenues have increased 15% when compared to last fiscal year.

Looking at total revenues by geography, Americas revenues for the fourth quarter were 38.7 million. This is a 22% sequential increase, and a 26% increase when compared to last year's Q4. For the fiscal year the Americas revenues grew 10% to 131.4 million. International revenues in the fourth quarter were 20.7 million or 35% of total revenues. Revenues from EMEA were 14.8 million which represents a 3% sequential decline and a 4%

AJS000147

2050003440414

year-over-year decline. However, for the fiscal year EMEA revenues grew 5%, to 52.9 million when compared to last fiscal year. Asia Pacific revenues, excluding Japan, were 4 million. This represents an 8% sequential increase and was flat when compared to last year's fourth quarter. For the fiscal year, Asia Pacific revenues grew 1% to 15.4 million when compared to last fiscal year.

Japan revenues were 1.9 million, representing a 5% sequential increase and a 42% decline when compared to last year's Q4. For the fiscal year Japan's revenues declined 40% to 9.1 million when compared to last fiscal year. Japan is the only region that did not have an increase in revenues for fiscal year 2006 as it was negatively impacted by the disruption in its business due to the problems we encountered at the end of last fiscal year. We continue to view Japan as a strategic market and recently hired a new President of **webMethods** Japan. With his experience at IBM, Microsoft, PeopleSoft, and Peregrin Systems, we believe he will bo instrumental in the growth of **webMethods** Japan.

We closed seven contracts in the quarter which were greater than $1 million. Six of these transactions were in North America and one was in Europe. No single customer represented 10% or more of total revenue. Our average deal size of transactions over 100,000 was approximately 500,000 which compares to 500,000 in Q3 and 350,000 in Q4 of last year. Our fourth quarter bookings by industry was comprised of technology partners, 20%. Communications, 15%. Manufacturing, 15%. Government, 10%. Financial services, 10%. Retail and consumer goods, 10%. And other, of 20%.

Approximately 65% of our bookings in the quarter were from existing customers, and we added 35 new customers. We included a number of these customers in our press release including Bell Canada Enterprises, Bloomberg, Cognos, Colgate Palmolive Company, Lefarge, Standard Register Company, The U.S. Small Business Administration and Wells Fargo Services Company. Approximately 30% of our bookings in the quarter were influenced by our partners.

Moving now to our gross margins we achieved total gross profit of 43.3 million in the fourth quarter as compared to 38.5 million in the prior quarter and 37.6 million in the prior year period. Gross margin was 73% of total revenues as compared to 73% in the prior quarter and 71% in last year's Q4. For the fiscal year, gross margin was 72% as compared to 70% for last fiscal year. Barges on professional services and maintenance were 52% as compared to 57% in the prior quarter and 52% in the prior year period. For the fiscal year, margins were 54% as compared to 50% for last fiscal year. Total operating expenses for the fourth quarter were 36.3 million as compared to 34.3 million in the prior quarter and 42.1 million in last year's Q4. This represents a year-over-year decrease of 14%.

For the fiscal year, operating expenses declined by more than $21 million, or 13%, to 138.5 million when compared to last fiscal year. We ended the fourth quarter with approximately 825 employees, which compares to approximately 790 at the end of Q3 and 833 one year ago. Sales and marketing expenses were 20.2 million for the fourth quarter compared to 19.5 million in the prior quarter and 19.2 million in the prior year period. The sequential and year-over-year increase was primarily due to higher commission expense paid in the quarter. For the fiscal year, sales and marketing expenses declined 10.2 million or 12% to 74.1 million. We ended the fiscal year with approximately 80 quota-bearing sales reps.

Research and development expenses were 10 million for the fourth quarter compared to 9 million in the prior quarter and 11.8 million in the prior year period. The sequential increase was primarily due to the higher payroll taxes and benefits that incurred at the beginning of the calendar year. For the fiscal year, R&D expenses were 40.2 million compared to 44.5 million in last fiscal year. We continue to leverage our India Development Center where we now employ approximately 20% of our worldwide R&D staff. G&A expenses were 6.3 million compared to 5.9 million in the prior quarter and 8 million in the prior year period. Included in this quarter's G&A expense is a litigation settlement payment net of insurance reimbursement of $750,000. Last year's G&A expenses included auditing and consulting fees related to the internal investigation of our Japanese operations. For the fiscal year, G&A expenses were 23.8 million compared to 25 million in the last fiscal year. As a result, our fourth quarter operating income was 7.1 million as compared to 4.1 million in the prior quarter and an operating loss of 4.5 million in the prior year period.

Operating margin for the fourth quarter was 12% as compared to 8% in the prior quarter and a negative 8% in the prior year fourth quarter. For the fiscal year, operating income was 11.5 million as compared to an operating loss of 19.7 million last fiscal year. Operating margin for the fiscal year was 5% compared to a negative 10% in the prior fiscal year. Included in the fourth quarter GAAP results were expenses of 496,000 for amortization of deferred warrant charge, 600,000 for amortization of acquired intangibles, and 750,000 for a litigation settlement payment net of insurance reimbursement. Also included was a $191,000 credit for the reduction of a previous accrual for excess facilities costs. Included in the fiscal year March 31, 2006, GAAP results were expenses of 2.5 million for amortization and deferred warrant charge, 2.4 million for amortization of acquired intangibles, 411,000 related to restructuring costs net of revisions for accrual to excess facilities costs, and 750,000 for a litigation settlement net of insurance reimbursement.

Net interest and other income in the fourth quarter was 1.6 million as compared to 1.5 million in the prior quarter and 680,000 in the prior year quarter. Income tax expense in the fourth quarter was 340,000, which was due to tax expense that could not be offset with net operating losses generated in prior years. Our fourth quarter GAAP net income was approximately 8.3 million, or $0.15 per share as compared to 5.5 million in the prior quarter, or $0.10 per share and a loss of 3.9 million or $0.07 per share in the prior year period. For the fiscal year, our GAAP net income was approximately 15.9 million, or $0.29 per share, as compared to a loss of 18.8 million or $0.35 per share last fiscal year. The basic weighted average shares outstanding during the quarter totaled approximately 54.9 million, the fully diluted weighted average shares outstanding during the quarter totaled approximately 57 million.

With respect to the balance sheet, we ended the quarter with approximately 163.2 million in cash and marketable securities, representing an increase of 14.3 million as compared to the prior quarter balance and a 13.2 million increase when compared to the prior fiscal year end balance. Net cash provided by operating activities was 13.7 million in the fourth quarter and 17.9 million for the fiscal year as compared to 2.4 million for last fiscal year. Total deferred revenue as of March 31, 2006, increased sequentially by approximately 16 million to 61.7 million. Approximately half of this increase was due to the deferral of license revenue that will be recognized in future quarters in this fiscal year. The remaining increase was due to this quarter's high level of license transactions and the seasonality of maintenance renewals.

Gross day sales outstanding for the fourth quarter were 101 days as compared to DSOs of 83 days in the prior quarter and DSOs of 80 days in the prior year's fourth quarter. Including the impact of changes in deferred revenue balances, net DSOs for the fourth quarter were 79 days as compared to 81 days in the prior quarter and 77 days in the prior year's fourth quarter.

I will now provide some forward-looking guidance. I would like to remind everyone of the comments Chris Martin made at the beginning of this earnings call regarding forward-looking statements for purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the beliefs of management based on information available to us on April 27, 2006 and we are not undertaking any obligation to update these numbers or provide additional refinement.

We expect total revenue for the first quarter of fiscal year 2007 to be in a range of 51 to 53 million, license revenues be in the range of 18.5 to 20.5 million, maintenance revenue to be approximately 20 million, services revenue to be approximately 12.5 million, net interest and other income to be approximately 1.7 million, the effective income tax on a GAAP basis is expected to be 2% of pretax income, and EPS on a GAAP basis is expected to be in the range of $0.01 to $0.05 per share. Included in our GAAP operating results, we expect approximately $2.7 million of stock-based compensation expense as we will be adopting FAS 123R this quarter. In addition, we expect approximately $600,000 in amortization of acquired intangibles. Again, these forward-looking statements are management's beliefs based on currently available information and should not be taken as a guarantee of future results which may differ materially as a result of a variety of factors discussed in our earning's release and our latest Form 10-K and Form 10-Q filed with the SEC. Now I would like to turn the call back over to David.

DAVID MITCHELL: Thanks, Mark. As I noted earlier this management team is proud to have delivered on the objectives that we set for fiscal year 2006. With this momentum, webMethods enters fiscal year 2007 poised for growth. Our success in FY 2006 was driven by our objective to achieve double-digit operating margins. It is upon this foundation that we can now announce an equally bold objective for fiscal year 2007, which is to achieve double-digit license revenue growth. As our past year performance indicates, our strategy is working, the market is growing, and our sales force is equipped and able to capitalize on the opportunity. We believe that these facts have positioned us to meet this license revenue growth target.

We are currently executing on two parallel paths to achieve this objective. First, we're going to continue to expand on the success that our customers are having with our industry leading products. Second, we're going to continue to strengthen and expand our sales channels. Of course, all of this will happen against a backdrop of continued financial discipline, ensuring that our cost structure remains fully aligned with our desire and commitment to maximize growth and profitability. This will allow us to capitalize on two of today's most significant growth opportunities, which are the enterprise adoption of service oriented architecture, and business process management. Our webMethods fabric product suite was the first to fully integrate these disciplines together allowing us to offer a value proposition that we have found to be unique in the marketplace. Together these disciplines help the worlds largest enterprises and government agencies achieve measurable and significant business process improvement.

Our differentiation stems from the fact that we are not solely focused today on the technology sale. Instead, we've taken on greater responsibility for our customers' long-term success, by combining our best in class product suite with best practice implementation methodologies we are working together with our customers to deliver a road map for what we call process return on investment. It is with this shared vision of process improvement that our customers are able to fully align their IT assets with their business process requirements to become more efficient and profitable within their operation. For companies that want to compete on process and need to better leverage and more broadly reuse their existing assets to do so this is an extremely attractive value proposition. This go to market strategy has delivered positive results for our direct sales force as well as the strongest momentum that we've ever experienced in our indirect channel.

Based upon the flexibility offered by webMethods fabric we've been able to strengthen our industry partnerships in three distinct ways: One, we provide independent software vendors with the technology needed to service enable their product offerings allowing them to deliver SOA based solutions to the marketplace faster than otherwise possible. We offer systems integrators the ability to expand their margins through reuse of existing services as core components of new solutions. We provide our consulting partners with a framework for monetizing their unique intellectual property as process specific solutions which can be replicated across multiple implementations.

In regard to the first point, we signed significant OEM deals during the quarter with both Manhattan Associates and i2 Technologies. Both companies have long relied on webMethods for business integration within their applications. Recognizing the increasing need to service enable these applications for deployment within an SOA both companies extended their agreements with webMethods during the quarter. We're also seeing growing interest among systems integrators in expanding their webMethods alliances. These partners have long recognized that webMethods offers the most complete and easy to implement solution for business integration and now recognize that we offer the same for SOA.

What's probably been the most exciting is the way that we've been able to leverage our platform to grow and expand our partners' businesses. We all recognize that service reuse is fundamental to the SOA value proposition. And if this is true of a single business, this value proposition becomes even more compelling for a systems integrator supporting multiple enterprises. What they're able to do is use a single service or a template or a dashboard to support multiple clients which greatly improves their productivity as well as profitability. Finally we're also seeing partners using webMethods fabric as a vehicle for packaging their intellectual property as customized solutions. For example, we signed an agreement during the quarter with a leading technology provider.

They're looking to provide our technology to transform existing telecom assets into a nationwide healthcare delivery network. This is just one example of how a partner can use our technology to replicate their service delivery across multiple implementations. Based upon this type of success our partner revenue channel provides us with an opportunity to gain greater leverage of our sales and marketing investments and will also play a pivotal role in meeting our fiscal year objectives.

Let me close by reiterating the strength of our current position. As demonstrated by our past year's results, we're delivering the best performance in our history. What's more, we're fully aligned with the overriding momentum for both SOA and BPM, having anticipated these trends early on and having taken aggressive steps to capitalize on them we're well positioned to profit and grow from their emergence. It's because of our early vision and tenacious attention to execution that our shareholders are now seeing the positive results of our unique strategy. Although we are pleased with the significant progress that we've made over the past year in accomplishing our key objectives, I will tell you that we're just beginning to realize the full potential of what we can do. In FY '07 you will see webMethods strive to expand its margins, grow EPS, improve cash flow, and achieve our additional objective of double digit license revenue growth. With that I will open it up for questions. Operator.

OPERATOR: [OPERATOR INSTRUCTIONS] And your first question comes from the line of John DiFucci.

JOHN MCVEIGH (ph), ANALYST, BEAR STEARNS: Congratulations, guys, on a good quarter this is actually John McVeigh for John Difucci. Just a couple of questions here, guys. First, I was wondering if you could elaborate a little bit on the deferred revenue growth, the sequential deferred revenue growth. You mentioned, I think that about half of the growth there was tied to license. Can you just delve into any of that detail?

MARK WABSCHALL: Yes, we thought we'd go ahead and give you some clarity on that on our conference call. Deferred revenue did increase by $16 million to the highest level of deferred revenue we've had. You typically see a Q4 that it goes up because of the larger size deals that we do closer in the quarter, of course, are going to have deferred maintenance on it. In addition, in Q4 we always have -- the renewals are on an anniversary basis, so the cumulative amount of Q4 deals are going to have the renewals come up that quarter. So you'll typically see our deferred revenue spike in Q3 and Q4. But in addition we had about $8 million of deferred license revenues this quarter so we went ahead and we pointed that out on the conference call here. This would relate to transactions where we're for various reasons going to be recording the revenue based on the structure of the transaction over the upcoming four quarters.

JOHN MCVEIGH (ph): Great. Also were there any $5 million deals in the quarter, license deals in the quarter, or greater?

DAVID MITCHELL: We don't generally comment other than we did indicate that there are seven deals over $1 million.

MARK WABSCHALL: And to kind of frame that we had no deals over 10%, so at 59 million we had no deals over 5.9.

JOHN MCVEIGH (ph): Just one last question, then I'll turn it over. In terms of -- David, you talked about extending the sales channel and you obviously signed a couple of, or expanded on a couple of OEM agreements, but looking at the quota bearing reps, we've been at about 80 for a couple of quarters here. I'm just wondering if you could talk a little bit about what your plans are in terms of hiring?

DAVID MITCHELL: We're going to the to invest in our direct channel. I'll let Rich address this as well. But that kind of net 5 target per quarter is something that we've continued to go after. But keep in mind that is a net number and so there is the constant quelling of kind of the bottom 10, 15, 20% performers. Rich, I don't know if you have a perspective on that.

RICH CHIARELLO, EVP, WORLDWIDE OPERATIONS, WEBMETHODS, INC.: The other thing, too is we're seeing great payback in our channel efforts. And we're not counting the people that we're hiring to manage those

AJS000151

channel partners in our quota bearing head count. One could argue, given how well we are doing, that the payback is at least equal there. All of these go into your cost of sales so you want to be able to manage investments in both sides, so that you both grow license revenue but also increase your profitability.

DAVID MITCHELL: We are going to continue to invest, you'll see us invest every quarter.

JOHN MCVEIGH (ph): So assuming everything -- assuming everyone operates to plan here, we should be exiting the year at sort of 95 to 100 reps?

DAVID MITCHELL: I can't give you the annual target but I will tell you that we're trying to chase that net five per quarter.

JOHN MCVEIGH (ph): congratulations on a good quarter.

DAVID MITCHELL: Thank you.

OPERATOR: And your next question comes from the line of Tim Klasell.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: Hey, guys. Congratulations on the quarter as well. First question, has to do with SOA and obviously you guys are pushing your product line with that, with this trend, but there's a lot of confusion out there on the customer base about exactly what SOA is. Are you noticing that the Oracle's and the BEA's and stuff in the world who have their sort of spin on SOA, sort of showing up in the early stages of competition or do the customers really have a pretty good idea what they want to do with this, and is it affecting your sales process at all. I guess that's the short question.

DAVID MITCHELL: I'll let Rich address the competition question but I'll tell you that SOA has become quite mainstream for us this year. Last year it was kind of a check mark and there were some interesting conversations but this year it was a significant driver in pipeline and significant driver going forward in the pipeline. The fundamental value proposition of SOA is reuse. So if I can get reuse out of the existing assets and I can fuse those assets to the processes that run my business and monitor those processes realtime which is the value proposition of fabric then I'm able to essentially improve and understand what's going on with my business realtime and that's why companies are investing in SOA. Rich and Tim, your perspective, what are you seeing in terms of the competition?

RICH CHIARELLO: Well, SOA, it would be shorter to tell you companies that don't claim to have the SOA strategy or offering than to tell you the ones that do. The only time I saw something similar to this was when e-commerce hit the world and everyone wanted it but they didn't know what it was. So as David said, we see everybody out there, every vendor, even nontechnology vendors talking about an SOA solution. At the end of the day what's making us successful is we've been able to put that together with a methodology that basically we go into a customer, we assess where they are from a reuse today. You probably won't be shocked to realize that most large customers get zero reuse today and we work our a plan by which we can get them to 30, 40% reuse in six months and it's that reuse and the savings that -- and the ability to demonstrate that in a proof of concept that lets them get the funding from the line of business who really don't know whether they're funding SOA or BOA but they're expecting to get reuse.

TIM KLASELL: Then real quick on Japan, how's that progressing?

DAVID MITCHELL: Like we've said over the last couple of quarters we're continuing to make investments there. We did hire a new President. He has a very distinguished background, and I think we'll see things progress in a very positive manner throughout this entire fiscal year.

TIM KLASELL: Good. Just one quick one on your guidance. Quick question, last one here on your guidance. You're predicting sort of down 30% sequentially and I know Q1s are notoriously difficult to judge. Is that just sort of a sign of conservatism, and is your pipeline staying as robust or is there something fundamentally changing out there?

DAVID MITCHELL: Well, Tim, you need to go back and look at what we did in terms of last Q1 where it was down from the Q4 performance, Q1 will be down from Q4, obviously that's reflected in our guidance, but if you look at our guidance it does reflect growth even at the low end which is a couple $10,000 worth of growth all the way up to double-digit growth at the high end of the guidance. So I think if you look at the Q1, Q1 comparison you'll see that the anticipation, is that we'll see some growth here.

TIM KLASELL: Good enough. Thanks a lot guys, and congratulations again.

OPERATOR: Your next question comes from the line of David Hilal.

DAVID HILAL, ANALYST, FRIEDMAN BILLINGS RAMSEY: Great. Thank you. Follow-up on the Japan question. Can you remind us when that business was operating at kind of normal capacity what the quarterly run rate was and maybe could you give us maybe an ETA when you think you can get back to just kind of normal state of business over there?

MARK WABSCHALL: Thanks for the question. Japan was historically running around $15 million on an annual basis for revenues, then that dropped off this year to about 9 million, and we had the disruption to our sales pipeline as a result of the changes in the management. We've been slowly building that back up. We've hired new leadership. It's certainly going to have an easier compare this year so we do anticipate to show growth in Japan this year.

DAVID HILAL: And the 8 million of license that went into deferred, is that going to be -- is that going to come out fairly linear over the next four quarters, or is it heavily weighted in any particular quarter?

MARK WABSCHALL: It really depends on also the deals that we have that we're booking this current quarter what's going to go into deferred so we really don't predict changes in our deferred license balance.

DAVID MITCHELL: We just don't offer guidance around what that accounts going to do.

DAVID HILAL: So it's based on milestones as opposed to time?

MARK WABSCHALL: It's really the structure of the deal could be based on cash payments. It could be based on the structure of the deal.

DAVID HILAL: Let me ask it differently. Do you not share that info because you just don't want to or do you not know because it's based on certain events and not time?

DAVID MITCHELL: We just simply don't offer guidance on how the deferred revenue is going to change, and we certainly don't comment on the license agreements with customers.

DAVID HILAL: Let me try to ask it one more time different. When you guys give guidance, do you know -- so you're not going to tell us, I'm fine with that, but do you know when that 8 million of license is going to come out on a quarterly basis, or do you just know it's going to come out at some point over the next 12 months?

MARK WABSCHALL: When we give guidance of course we do take a look at our pipeline and existing deals so it's baked into our guidance, yes.

DAVID HILAL: Okay. Thanks, guys.

OPERATOR: Your next question comes from the line of Dino Diana.

DAVID MITCHELL: Hello. Operator, I think we're--.

OPERATOR: I'll just go ahead and go to the next question. It comes from the line of John Rizzuto.

JOHN RIZZUTO, ANALYST, LAZARD: Good afternoon. Hi, David, Mark. David, you're actually just judging, you're building in and you talked about getting that double-digit license revenue growth target this year and obviously just from the first quarter guidance yon ace building up a strong second-half ramp. What gives -- and just looking at my numbers back of the envelope it's a much stronger acceleration in 2006. Obviously there's a lot of products, a lot of traction. You hit on some of the things that give you that confidence, but is there things particularly in the market that are making you feel that way? Is it a webMethods competitive position? Just a little bit more granularity why we think we're going to get such a strong ramp toward the end of the year.

DAVID MITCHELL: First of all, we spent a significant proportion of last year really ramping up our sales force and making sure that we had the right personnel in the key positions to execute on the solution selling process that Rich really developed and brought to the Company. I will tell you that we're very pleased with the progress that we've made with that bonch of folks and we think that they are enabled and ready to start executing with our FY '07 plan. I will tell you that the two hottest areas right now in IT is SOA and BPM. That's where we're seeing a lot of funding starting to show up with our customers, the largest companies on the planet as well as the largest government agencies, and we're right in the middle of that. We feel pretty positive about the opportunity.

RICH CHIARELLO: Let's just augment that. When we define BPM, that is now a combined space of business process management improvement, and business activity monitoring. Why it's hot and generating for us this activity is it's the easiest way to justify software. We did a return on investment workshop with a large bank in North America that just concluded recently, where their numbers, having looked at our technology, concluded that they could save $750 each on each home line of mortgage credit application over their current operational process without our technology. Of course, you can imagine, they process hundreds of thousands of millions of these a year. So when you start looking at being able to go to the line of business with these tangible savings, it is creating the momentum for us that I'm not sure if everybody else in the industry is going to be able to share.

JOHN RIZZUTO: Okay. That creates two more questions. David, one of the things that you're talking about, for the sales force is that this was -- '06 was a year of investment, you expect ramps in '07, you expect them to be more productive and start hitting their quotas. If you can give us some granularity on where they are in the ramp, how you look at that overall and what type of productivity per sales person you expect. Secondly, I know it's really hard because you have a lot of mix solutions, but is there a way you can quantify what you're selling in BPM or BAM and what is driving that from a quantitative standpoint?

DAVID MITCHELL: Sure.

JOHN RIZZUTO: In terms of deals? As much as you can.

DAVID MITCHELL: We know, but we just don't share that information with the analysts and the outside world. I will tell that you BPM and SOA are driving a significant portion of the pipeline, those kinds of problems that we solve in those two categories represent the preponderance of the pipeline. With regards to the sales force, again, we're not going to offer a lot of detail around where they are in their ramps, but I'll tell you that we're better off than we were last year.

JOHN RIZZUTO: Congratulations on the quarter.

DAVID MITCHELL: Thank you, John.

OPERATOR: [OPERATOR INSTRUCTIONS] And your next question comes from the line of Dino Diana.

DINO DIANA, ANALYST, CITIGROUP: Sorry for the technical difficulty. Nice quarter. So the one question I have, I'm a little confused on the guidance. I know you mentioned double-digit license growth potential for the year, but when you look at kind of what you guided for and just take license revenue over total rev, it looks like the mix shift of software as a percentage of total revenue is coming down, or at the very high point of your guidance staying flat. Can you just go over why that would be?

RICH CHIARELLO: Well, this is Rich. One of the things you want to look at is historically at what portion of the full year Q1 has represented for us. Of course, we're not trying to give any guidance beyond Q1. Make that very clear. But if, indeed, past history held true, at the mid range of our guidance we would be showing on an annual basis 11% growth in license revenue. Again, that's not guidance, but if the history of the averages held true, that's where we would be. So I think perhaps maybe we're underestimating the typical drop-off that we have going from Q4 to Q1.

DAVID MITCHELL: If you look at the Q1 to Q1 comparison, Dino, I think you'll see that that's where the differences are in terms of what this Q1 looks like and what last Q1 looked like.

DINO DIANA: Maybe asked differently, do we expect -- if you look at the full year, if you're able to get to that double-digit license revenue growth there's no reason why as a percentage of total revenues license should become -- it should trend higher than the 42% you posted this year, is that right?

DAVID MITCHELL: We can't comment on what we think our performance is going to be for the full year. I will tell you that as a management objective, we are chasing with as much zeal as we did last year's double-digit operating margin objective, which we delivered on, told you we were going to do it, and we did it, we're applying that same level of effort to achieve this objective. It's a big objective, but it's one that we're going to go get.

DINO DIANA: Okay. One other question. One of your competitors seems to have made a pricing -- well, a change in how they structure their contracts. Just wondering, have you seen that at all in your own business, customers requesting a different type of licensing, any more kind of all-you-can-eat-type deals? Or however it might be.

RICH CHIARELLO: Well, customers would always prefer to pay very little, and have an all-you-can-eat, I don't think that's change. What's really worked for us, and our approach, it's very unique, I've talked about this now for a year and a half, is our project-based licensing enables us to go in and match up the return on an individual project with the amount of our investment, leaving three additional sales, instead of cash for additional projects.. To my knowledge, I haven't heard anybody else in the industry talk about doing that in this space and being successful doing it. I think both our approach and our pricing to the market is pretty unique.

DAVID MITCHELL: For most of the bigger transactions what we're seeing is that when we deploy our solutions team to really do that kind of ROI analysis that Rich just talked about with that large bank in North America, at that point, and, Rich, I'm asking you to keep me honest, there really isn't a lot of competition, because what we've done is gone to a whole new level. It's less about technology and product, it's more about the solution and our methodology.

RICH CHIARELLO: In all of those accounts, they're all pretty large accounts, they typically have three or four other stand-alone BPM players, IBM, or BEA, or sometimes Tibco already installed, from a line of business point of view there's no one else in their office who has approached them with this approach and has demonstrated the ability to give these tangible business benefits. You really stand alone on the success of this project.

DINO DIANA: Thanks, guys.

CHRIS MARTIN: Next question, operator.

OPERATOR: [OPERATOR INSTRUCTIONS]

CHRIS MARTIN: Operator, are there any more questions?

OPERATOR: There seem to be no further questions at this time. This seems to conclude today's conference call. Are there any closing remarks, gentlemen?

DAVID MITCHELL: Other than just thank you all for participating, and we'll talk to you soon. Good-bye.

OPERATOR: Thank you, ladies and gentlemen. This does conclude today's conference call. You may now disconnect at this time.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

Document FNDW000020060511e24r001jq

Q2 2007 webMethods, Inc. Earnings Conference Call - Final

8286 words
2 November 2006
Voxant FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: Good afternoon. My name is Jean, and I will be your conference operator today. At that time I would like to welcome everyone to the second-quarter fiscal year 2007 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS)

Mr. Martin, you may begin your conference.

CHRISTOPHER MARTIN, VP, IR, WEBMETHODS, INC.: Thank you, operator. Good evening, everyone, and thank you for joining us. My name is Christopher Martin, Vice President Investor Relations at webMethods. The purpose of this evening's conference call is to discuss our second-quarter fiscal year 2007 financial results. These financial results are based on the Company's preliminary evaluation of the purchase price allocation and related accounting treatment for its acquisitions of Infravio and Cerebro. Complete financial results will be included in the Company's Form 10-Q for the period ended September 30, 2006, and may vary from the results reported today.

Joining me today is David Mitchell, our President and CEO, and Mark Wabschall, our Chief Financial Officer. The press release we issued this evening regarding our results is available on our website. That is www.webMethods.com [http://www.webMethods.com]. Our press release has also been furnished to the Securities and Exchange Commission pursuant to a Form 8-K.

Before we begin, please note that this conference call is being broadcast over the phone and via a live webcast. This call is also being recorded and will be available for replay on our website or by dialing the following numbers, 1-800-642-1687 in North America or 1-706-645-9291 outside of North America. The confirmation number is 9838097; and the conference call replay is available through November 30, 2006.

During the course of this conference call, management may make comments which are forward-looking in nature. These comments are intended to be forward-looking statements for the purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These projections and other forward-looking statements regarding expectations may include comments regarding future business and financial metrics, our pipeline, future cost savings and expense levels, costs of legal compliance matters or internal control matters, trends in the market for our products and in the software industry, and expectations of future financial performance including total revenue and license revenue, operating margin, anticipated charges, net income, and earnings per share.

Any forward-looking statements are subject to various risks and uncertainties that could cause the actual results of webMethods to differ materially. Please refer to the discussion of risks and uncertainties in webMethods' earnings press release and SEC filing. Specifically, review the discussion of risk factors in webMethods' most recent Form 10-K which is on file with the SEC and available electronically through Edgar or a link on our Investor Relations website.

These forward-looking statements should not be viewed as a guarantee or commitment to any action or results, and our actual performance may differ materially from those measures indicated in our forward-looking statement. These statements reflect the beliefs of management based on information available to us on November 2, 2006, and webMethods does not undertake any obligation to update or correct any forward-looking statements due to the occurrence of events after this call.

I would now like to turn the call over to David Mitchell, webMethods ' President and CEO. David.

DAVID MITCHELL, PRESIDENT, CEO, WEBMETHODS , INC.: Thank you, Chris. Good evening, and thank you all for joining us. Before I begin my remarks for the evening, I wanted to take an opportunity to let everyone know that Rich Chiarello has decided to leave the Company to pursue other opportunities. Rich and I have agreed that this is the best course of action based on the Company's need to streamline the management organization while we realign our cost structure.

As a result, I will be taking a more direct management role within the global sales organization. Over the last 2.5 years, Rich has been a valued member of the executive management team. During his tenure, Rich introduced significant improvements in our sales processes and tirelessly worked to grow the business. His contributions were significant as he played a big role in last year's performance, which we posted the best annual results in the companies history.

He has agreed to remain available to me through the end of the year to assist in any transitional issues that may arise. We are thankful for his contributions, and we wish him well in his new endeavors.

Now I would like to review the quarter. As we announced in our press release issued earlier today, these financial results are based on our preliminary evaluation of the purchase price allocation and related accounting treatment for our acquisitions of Infravio and Cerebra. License revenue for the quarter was $16.5 million. Maintenance revenue was $21 million. Professional services was $13.3 million, and both of these were in line with original expectations.

Total revenue for the quarter was $50.8 million. This performance resulted in a GAAP loss of $0.07 per share. While we showed total revenue growth on a year-over-year basis, we were unsuccessful in growing our license revenue, and so our results are disappointing. Since our last call, we've had a better opportunity to analyze the root cause for our performance last quarter.

I have personally spoken one-on-one with approximately 50 key operational managers, sales managers and individual contributors throughout the Company. In addition, the management team has completed a comprehensive review of the business at every level, as well as analyze every key deal in our Q3 and Q4 pipeline.

We have determined that there are three main issues that have contributed to our recent performance. One, a lack of new account acquisitions; two, an over reliance on larger deals; and three, lack of certain key SOA and BPM capabilities in our products.

On the first issue, the lack of new customer acquisitions, our analysis has shown that the sales force has spent a considerable amount of time managing and targeting our existing customer base, and has not been sufficiently focused on new business development. Keep in mind that our customers represent significant prospect opportunities and continue to grow their implementations along with the resulting value that they receive from our products.

It is natural, therefore, that our sales force continues to pursue additional value within these accounts. However, in territories where existing customer focus overrides new customer acquisition, we simply are not generating enough revenue to achieve our targets. We need to be more focused on adding a sufficient amount of new customers to generate subsequent follow-on sales that normally result from new accounts and new projects after the initial sale.

So to correct this, we are enforcing a consistent level of discipline around new customer acquisition. We have instituted a better management oversight, more detailed pipeline inspection, and certain compensation modifications.

With respect to our reliance on larger deals, this has mostly to do with an inability to consistently grow the absolute number of transactions. To grow the number of transactions, we recognize that it is important to grow the pipeline, both in terms of total dollars, but also in terms of the total number of transactions. This is why customer prospecting is so important.

It is clear that webMethods Fabric represents an attractive upsell opportunity for our current customers. However, there are things that we can do to make it easier for new customers to buy from us. Initial projects are often focused specifically on integration, BPM, SOA or B2B. We are simplifying and improving our pricing and packaging model to better capture these opportunities, including the introduction of Starter Packs, to incentivize customers to buy earlier in the sales cycle.

We believe this will help us balanse our selling activity to attract both new and existing customers, as it will lower the bar for initial customer adoption.

For companies who want to focus on SOA projects now, we believe our recent acquisition of Infravio allows us to create a transactional pipeline that is equally as strong with both new and existing accounts. We are already seeing market demand for these products as Infravio uniquely addresses the first steps of the SOA life cycle, which is the creation of an SOA registry and repository.

What differentiates this product and makes it appealing to all companies regardless of their current choice of vendors for integration, app server or even their systems integrator, is its unique combination of the SOA registry, repository with full life cycle governance. We believe the creation of the Starter Packs and the differentiated Infravio products will allow us to more readily convert new account opportunity, as well as decrease that time to first sale for our sales reps.

The third challenge that I outlined was the lack of certain capabilities in SOA and BPM. We believe that the products of Infravio closes the strategic gap that previously hindered our ability to convert our SOA pipeline. While our SOA functionality was strong, buying patterns have demonstrated that when companies get serious about their SOA initiatives, they look first to purchase registry in governance.

With regards to BPM, there are certain buying criteria that our BPM capabilities did not address. As an example, we needed a more comprehensive approach for the people-based steps in BPM versus the machine-to-machine-based steps. Based on our desire to deliver best-in-class BPM, a substantial number of the webMethods 7 development team has been focused on delivering a marketleading, fully functioning BPM suite.

WebMethods 7 will be previewed at Integration World next week and will be released in December of this year. So with the products from Infravio and updated BPM and other major enhancements in webMethods 7, we believe that the product gaps that have slowed our growth are now behind us. We believe that with our new product cycle, a well-equipped sales force and a differentiated offering in the two hottest areas of IT spend, we are better equipped to return to our historical conversion rates against the pipeline that we are building.

We are going to implement multiple changes over the immediate, mid- and long-term to get sustainable revenue growth back in the business. I want to reiterate that we are strongly committed to running a profitable enterprise software company. Therefore, we are looking at all facets of the business for greater operating leverage. As such, we will be reducing facilities, contractor, travel, and personnel expenses around the world.

There will be minimal impact in Q3 due to the timing of these actions and their associated costs. However, we expect savings of approximately $2 million in Q4 and approximately $13 million for fiscal year '08. As our desire for profitability cannot outpace our desire to grow, these initiatives will not reduce our quota bearing headcount or impact our product or services deliverables.

Now I would like to turn the call over to Mark who will provide you further detail around our financial results.

MARK WABSCHALL, CFO, WEBMETHODS, INC.: Thank you, David. As a reminder, the results I am about to discuss are based on the Company's preliminary valuation of the purchase price allocation and related accounting treatment for its acquisitions of Infravio and Cerebra. As a result, we did not include financial statements in the press release. Complete financial results will be included in the Company's Form 10-Q for the period ended September 30, 2006, and may vary from the following results.

Overall, our results were slightly better than the high end of guidance provided in our preannouncement press release on October 5, 2006, which excluded the impact of adjustments related to the recent acquisitions of Infravio and Cerebra.

Total revenues for the second quarter were $50.8 million as compared to $49.2 million in the prior year second quarter, or 3% year-over-year increase. License revenue for the second quarter was $16.5 million, which represents 33% of total revenue. This compares to license revenue of $19.4 million in the prior year second quarter or 14% year-over-year decline.

Professional services revenue for the second quarter was $13.3 million as compared to $11.3 million in the prior year second quarter or a 17% year-over-year increase. Maintenance revenue for the second quarter was $21 million as compared to $18.5 million in the prior year second quarter or a 14% year-over-year increase.

Looking at total revenues by geography, America's revenues for the second quarter were $33.5 million. This is a 9% increase when compared to last year's Q2. International revenues in the second quarter were $17.3 million or 34% of total revenues. Revenues from EMEA were $12 million, which were slightly down versus last year's Q2. Asia-Pacific revenues, excluding Japan, were $3.3 million. This represents a 5% decline when compared to last year's second quarter, and Japan revenues were $2 million. This represents a 27% decline when compared to last year's second quarter.

We had four transactions, which we recognized license revenue greater than $1 million. These transactions were all in North America. No single customer represented 10% or more of total revenue. Our average deal size of transactions over $100,000 was approximately $500,000, which compares to $400,000 in Q1 and $400,000 in Q2 of last year.

Our second-quarter bookings by industry was comprised approximately of manufacturing, 25%; government, 20%; financial services, 15%; technology partners, 15%; communications, 10%; retail and consumer goods, 5%; and other industries, 10%. Approximately 75% of our bookings in the quarter were from existing customers, and we added 31 new customers.

We listed a number of our existing and new customers in our press release, including Arinso International, Capital One Services, Casbega S.A., Commonwealth of Pennsylvania Department of Labor and Industry, Cox Communications, Elemica, Inc., Hewlett-Packard, Ministry of Health for Lithuania, Lenders First Choice, and Tribeca Global Management, a subsidiary of Citigroup Alternative Investments.

Approximately 40% of our bookings in the quarter were influenced by our partners. Before I discuss our gross margins and operating expenses, I want to remind you that our GAAP results for the second quarter reflect $2.8 million of stock-based compensation expense as a result of the Company's adoption of Financial Accounting Standard number 123(R). Fiscal year 2006 results do not include these expenses.

Moving now to our gross margins, we achieved total gross profit of $33.7 million for the second quarter as compared to $34.8 million in the prior-year period. Gross margin was 66% of total revenues as compared to 71% in last year's Q2. This decline is primarily due to the decrease in license revenue. In addition, Q2's cost of revenue includes $432,000 of stock-based compensation expense.

Margins on professional services were 5% as compared to 12% in the prior-year period. Included in Q2's cost for professional services is $432,000 of stock-based compensation expense, which had a 3% negative impact on our current quarter margins. The remaining decrease in margins is due to the ramping up of our professional services personnel during the quarter.

Margins on maintenance were 85% as compared to 81% in the prior-year period. Included in Q2's cost of maintenance is $95,000 of stock-based compensation expense.

Total operating expenses for the second quarter were $39.1 million as compared to $33 million in last year's Q2, or a year-over-year increase of 14%. Included in Q2's operating expenses were $2.3 million of stock-based compensation expense, $1.1 million write-off of in-process research and development costs related to the acquisition of Infravio, and $430,000 of transaction fees and other related acquisition costs for the purchase of assets of Cerebra.

We ended the second quarter with approximately 953 employees, which compares to 841 at the end of Q1 and 795 one year ago. Headcount increased by 112 employees during Q2, due in large part to the addition of 73 employees from the acquisitions of Infravio and Cerebra.

Sales and marketing expenses were $19 million for the second quarter compared to $17.1 million in the prior year period. Included in our current quarter sales and marketing expenses, $875,000 of stock based compensation expense. We ended the quarter with approximately 80 quota bearing sales reps. Research and development expenses were $11.5 million for the second quarter compared to $10.1 million in the prior year period. Included in our current quarter R&D expense is $701,000 of stock-based compensation expense.

G&A expenses were $7.4 million compared to $5.4 million in the prior year period. Included in our current G&A expense is $755,000 of stock-based compensation expense and $430,000 of transaction fees and other related acquisition costs. As a result, our second quarter operating loss was $5.5 million as compared to an operating profit of $1.8 million in the prior year period. Please keep in mind our GAAP results for second quarter reflect $2.8 million of stock-based compensation expense or a negative 5% impact on operating margin as a result of the company's adoption of financial accounting standard number 123(R).

Fiscal year 2006 results did not include these expenses. Also included in the second quarter fiscal year 2007 GAAP results were expenses of $736,000 for the amortization of acquired intangibles. Net interest and other income in the second quarter was $1.6 million as compared to $933,000 in the prior year quarter. Income tax expense in the second quarter was $196,000, which was due to tax expense that could not be offset with net operating losses generated in prior years. Our second quarter GAAP net loss was approximately $4.1 million or $0.07 per share as compared to GAAP net income of $2.0 million or $0.05 per share in the prior year period. The basic weighted average shares outstanding during the quarter totaled approximately 55.6 million.

With respect to the balance sheet, we ended the quarter with approximately $136.6 million in cash and marketable securities, representing a decrease of $25.7 million as compared to the March 31, 2006 balance of $162.3. The decrease of $25.7 million is primarily due to the acquisitions of Infravio and Cerebra. Cash flow from operations during the second quarter will be in excess of $1 million.

Total deferred revenue as of September 30, 2006 decreased sequentially by approximately $9.5 million to $47.0 million. Deferred license revenue decreased by a net $5.6 million. Approximately a net $2.5 million of license revenue was recognized in Q2 from deferred revenue. The remaining decrease of $3.1 million was primarily due to the reclassification to accrued expenses for a potential refund of prepaid license fees for prior year transactions in Japan. The remaining decrease was primarily due to the typical seasonality of maintenance renewals.

Gross days sales outstanding for the second quarter were 75 days as compared to DSOs of 89 days in the prior quarter and DSOs of 75 days in the prior year second quarter.

I will now provide some forward-looking guidance. I would like to remind everyone of the comments Chris Martin made at the beginning of this earnings call regarding forward-looking statements for the purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the beliefs of management based on information available to us on November 2, 2006, and we are not undertaking any obligation to update these numbers or provide additional refinements.

We expect total revenue for the third quarter of fiscal year 2007 to be in the range of $47 to $50 million. License revenue to be in the range of $13.5 to $16 million; maintenance revenue to be approximately $21 million; services revenue to be approximately $12.5 to $13 million; net interest and other income to be approximately $1.5 million; income tax expense is expected to be $300,000; and loss per share on a GAAP basis is expected to be in the range of $0.11 to $0.16 per share.

Included in our GAAP operating results, we expect approximately $3.5 million of stock-based compensation expense and approximately $1.4 million in amortization of acquired intangibles. In addition, we expect approximately $1.4 million for excess facility costs, related to the move of our R&D facility in Sunnyvale, California. In connection with our cost savings initiative, we expect to incur approximately $1.4 million of severance and benefits costs. Again, these forward-looking statements are management's beliefs based on currently available information and should not be taken as a guarantee of future results which may differ materially as a result of a variety of factors discussed in our earnings release and our latest form 10-K and form 10-Q filed with the SEC. Now I would like to turn the call back over to David.

DAVID MITCHELL: Thank you, Mark. While we have identified areas that needed and will be addressed, we will continue to leverage our unique strengths to take advantage of the growing opportunity in front of us. These strengths include a growing customer base of almost 1500 clients who continue to enjoy great value from our solutions. A set of highly differentiated products in two of the hottest markets in the IT industry, SOA and BPM, a core competency in integration which remains a top priority for businesses everywhere, and a global team of dedicated individuals who have a proven ability to succeed.

With the growing interdependence of integration, SOA and BPM, companies will continue to look for a total and seamless solution. WebMethods was the first to take this approach, and we will continue to lead. In conclusion, there is a lot of hard work that is going to need to be accomplished. I want to assure everyone that we are sharply focused on improving our ability to convert the demand and to leverage the opportunity that we are seeing in the marketplace. I feel confident that with the combination of the strengths that we currently have as a company and the actions that we have recently taken and are going to take, we will produce a result that will get our performance back on track.

With that, operator, we are more than happy to open up the line for any questions.

OPERATOR: (OPERATOR INSTRUCTIONS) Dino Diana.

UNIDENTIFIED PARTICIPANT: This is John for Dino. Can you give us a feeling for what deferreds are going to look like next quarter?

MARK WABSCHALL: Deferred revenue?

UNIDENTIFIED PARTICIPANT: Yes.

MARK WABSCHALL: Yes, there still is some remaining amount of deferred revenue from the large increase that we had in Q4, and I believe there is about $4 million of deferred license revenue that is yet to be recognized in those transactions.

UNIDENTIFIED PARTICIPANT: Do you think it would be sequentially flat with this quarter or up slightly?

MARK WABSCHALL: We normally don't give guidance on deferred revenue. I just tell you what is left in the deferred license number that is yet to be recognized.

UNIDENTIFIED PARTICIPANT: Okay. Thank you.

DAVID MITCHELL: That is short term, too, right?

MARK WABSCHALL: Yes, it is short term, so that would be over the next two quarters.

1404436056 8

OPERATOR: John Difucci.

BRAD ZELNICK, ANALYST, BEAR STEARNS: Good afternoon, guys. It is actually Brad Zelnick for John. I'm really great to see that you guys are taking what seems to be the appropriate steps to get things back on track. Just a question on Rich's departure. It seems that it represents a pretty meaningful transition for you going into what has historically been a seasonally strong quarter for software and for webMethods . I was wondering if you could just give a little more detail on the transition plan, who is going to take on that responsibility in the interim and what the plans are for finding a replacement.

DAVID MITCHELL: Sure. As I indicated in the earlier remarks, my plan is to take a very direct role in terms of the management of the sales force. I will be working closely with Rich over the transition period that he has agreed to kind of stick around and help me out through the end of the year. But I will be taking control of the sales organization. As you know, my background indicates that I have done this before, and I am certainly aware of the issues that this organization is faced with particularly based on the recent interviews that I've done, which was more of an emphasis on the sales organization than other parts of the company. I feel pretty confident that I'm going to be able to very quickly get involved in a lot of the deal flow and hopefully add value to a lot of negotiation processes. But I'm really going to be focused on figuring out how to make sure that the discipline that need to be in place around new customer acquisition, getting more transactions in the pipeline, not just increasing the total dollars of the pipeline really starts to happen. And so that is going to be a focus of mine. Once I get comfortable that all of that activity is moving in a positive direction I will obviously look to see how we can scale that capability because I do have other areas of responsibility as the CEO. Right now there are no plans to backfill that role currently. I really want to roll my sleeves up on this one.

BRAD ZELNICK: That's great, just a quick follow-up. You mentioned modifying the comp plan to incentivize your guys to go out there and attract new customers and new business. Can you talk a little bit about some of those details and what the plans are there and what the impact might be on sales and marketing expense going forward?

DAVID MITCHELL: We want to try to minimize the impact on sales and marketing expense, but what I want to do is make sure that I have all the bases covered in terms of new customer acquisition. Obviously sales individuals get compensated for closing deals. If you don't put some level of differentiation between new customer accounts and existing customer accounts maybe you don't get the right behavior. It is my expectation, however, of management that they build a long-term, sustainable business in their respective territories. So although the comp plan will reflect and incent behavior around new customer acquisition, I want to be very clear that the managers will have zero confusion around what kind of business I'm looking for them to build.

BRAD ZELNICK: Thank you. I look forward to seeing you guys next week.

DAVID MITCHELL: Yes, at Integration World.

BRAD ZELNICK: Exactly.

DAVID MITCHELL: Great. Look forward to it.

OPERATOR: Tim Klasell.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: Good afternoon, everybody. First, just a quick clarification. There was no contribution from Infravio or Cerebra in the quarter. Is that correct?

MARK WABSCHALL: We purchased Infravio on September 27, so we had three days of their expenses. And Cerebra we bought in the middle of the quarter, and it is an R&D department. So we just had the costs.

TIM KLASELL: Can you sort of clarify how much that was?

MARK WABSCHALL: It was 14 employees.

TIM KLASELL: Okay, so it was minor. And then if you can go through a little bit of the 3.1 that is being reclassified. Can you walk us through was that from some of the prior transactions, or can you walk us through what is driving that?

MARK WABSCHALL: Yes. Absolutely. As you remember, we ended up restating our Japanese revenues after our investigation, and in going through some of the historical transactions we ended up having a settlement with one of our resellers where we had inventory. They had to write for a couple of years to sell that inventory at the end of that period. We would be obliged to refund them for any unsold inventory. So as part of our restatement we ended up deferring all that revenue. As a result of the lackluster revenues in Japan, we have made a reassessment, and we now have reclassified that deferred revenue to an accrued expense in anticipation of having to refund that balance at March 31, 2007.

TIM KLASELL: Very good. And sort of a bigger picture, you spent the last two or three years trying to have your salespeople focus on the solution sale, which is obviously a larger sale. Now it seems like you're focusing a little bit on maybe smaller deals, increasing the sales cycle, if you will. Are you comfortable that the sales force that you have today can switch gears like that or are we going to have to see some rebuilding there?

DAVID MITCHELL: I don't necessarily believe there is going to be any dramatic rebuilding. I think it is really a segmentation exercise. So what we're going to be doing is looking at a way to assign some of the better customer accounts that seem to have lots of opportunity over the next couple years to some of our better reps. We are going to be looking to identifying global accounts within each territory that aren't customers currently and assigning them to reps that can manage a global relationship, and then we are going to be looking at reps who are new to the organization who still need to cut to their teeth and prove themselves, and assign them to getting the smaller, onetime projects in the new accounts where you have to kind of plant that seed to get going. We have seen time and time again that when you acquire a new account it starts with a project. That project is usually focused on some aspect of what Fabric provide. So instead of trying to figure out how to get the whole elephant deal done at once, we've got to kind of realign our resources to understand how to penetrate new customers while we are converting existing customers to the full Fabric suite. So it is a little bit of the honing of the strategy as opposed to a redoing of the strategy.

TIM KLASELL: Okay. Good enough. And then just one quick one on guidance. Can you give -- for next quarter, can you give us an idea of -- it looks like sort of at the midpoint of your guidance that professional services would be down slightly next quarter. Is that -- am I on track with that?

MARK WABSCHALL: That does reflect the Thanksgiving and the holiday season for the Christmas period. So we typically do have an impact going from quarter to quarter sequentially.

TIM KLASELL: All right. Thanks a lot, guys.

OPERATOR: John Walsh.

JOHN WALSH, ANALYST, CITIGROUP: Good afternoon, guys. First question is just on the sales side. David, do you anticipate any management changes as the last couple quarters; the execution has not been where you want it to and now the fact that Rich is leaving, do you see another level of shakeup or changes that you need to take?

DAVID MITCHELL: I don't anticipate it. You never know in terms of how things evolve over time. I will tell you that a majority of these managers were either sales reps or managers under me when I was the COO. So I have a pretty long-term relationship with many of them. So they are used to my style. They are used to how I work. I will also tell you that I have learned some stuff from Rich in terms of tools and processes to help better manage these guys, and so I am going to leverage that going forward, and I think we're going to figure this out together.

JOHN WALSH: Could you give us I think for the last several quarters now you have been around that 80 quota carrying reps. Could you give us a sense of maybe the average tenure or the distribution, how many of those 40 reps are there less than a year to give us some sense of where the sales force is at?

DAVID MITCHELL: I don't believe that we talk a lot about that detail, but I will tell you that we are still not seeing and the performance is indicative of it, we are still not seeing that new rep get as productive as I want them to be in the near-term. So I talked a little bit about in my remarks, about first time to sell. And I think these Starter Packs and lowering the bar for customers who aren't customers today to get into initial projects will kind of ramp that up and get them more productive sooner. At the end of the day you need to have a sales force that is confident in the products that they are selling. In other words, the product is competitive. And so we've spent a little bit of time trying to figure that out and we think we have that behind us. You need to have a sales force that has the right tools, training and management and processes behind it so that it can be effective at finding and identifying the pipeline. But also making sure that that is a balanced set of activity and I think our discipline just hasn't been there, and that is going to change going forward. So my goal right now is to get these new reps and existing reps productive on a more consistent basis.

JOHN WALSH: Okay, and then the expense reductions for next year if I do a quick calculation about a 7% kind of up operating expense reduction and yet you're not going to touch really your -- or try not to affect R&D and the sales ability. Other than facilities costs and what areas are they going to come out in and will you have the infrastructure that support your sales and R&D effort going forward? It seems like a little bit more than trimming around the edges. There will be some affect, especially on the fact that you scrubbed the expenses pretty hard I think in the last go round.

DAVID MITCHELL: Yes, again, over time the company has to continue to have a discipline of making sure that they are running as lean as they can. And I think in some areas we maybe got a little hotter than we needed to. Keep in mind that we were trying to aggressively invest for growth, and that growth just hasn't come about. And so we really need to focus on that cost structure. We will be doing a lot more in India next year as we continue to expand our locations, both in Chennai and Bangalore with the acquisition of Infravio that gives us a substantial presence in India. Essentially almost doubles our footprint there. And we are going to look at some of the tactics; travel, facilities. We just did a recent move in Sunnyvale which will save us some money but got our folks into far better space than they were in before. And we have to kind of analyze our investments in different personnel around the world in terms of their ability to influence our quota-bearing headcount and increase our conversion rates. And so it is going to be kind of across-the-board continued analysis. But there are some things that will happen real quickly here that will allow us to see some savings in Q4, and then those savings go into the next year.

DINO DIANA, ANALYST, UBS: Okay. One final one on product integrations. You need to integrate Infravio and then the Cerebra technology and then the training cycle that you have to, the sales reps have to go through, where are you at with especially the new Infravio?

DAVID MITCHELL: I will start with the training first. That is where we focused a lot of effort, particularly over the last month and a half, and that is well underway. I believe that a majority of the systems engineers have been trained on the product, although we continue to follow up with them and help them with key deals. One of the interesting things about this product, which I had the hunch would happen, because we had been identifying so many SOA opportunities over the last year and a half, they have started to take that product back into those opportunities that haven't converted yet so we're seeing proof of concepts getting going. And it is actually good news from my perspective -- we're seeing kind of a lot of gnashing of the teeth in terms of I need more resources, I need more resources, I need help on this, I need to know, learn more about this part of the Infravio product. Which tells me that the sales force is getting very active on this product in the marketplace. So we are going to continue to invest as much as we can. Integration World next week is going to be significant in that we are going to be doing a lot of training of customers and rolling out of this capability.

With regards to the integration, it is not that substantive in terms of what we need to do with Infravio, given the standards approach that we've taken with the webMethods Fabric, the integration is going to be fairly straightforward. And we are going to be looking to keep it lightweight so that we can really take advantage of Infravio as is. That is essentially why we kept the name Infravio because we believe we have a substantial opportunity to sell this product into other integration vendors' customer base. In fact, we are already seeing that

AJS000165

with a couple key deals where we are not the standard for integration. The competitor is, but yet we seem to be moving forward on a very positive proof of concept.

With regards to Cerebra, that really is going to be addressing our strategic metadata strategy, which we will be talking a lot about next week at Integration World. That was an OEM that we did right in the beginning of the webMethods seven development cycle. We are continuing with that development. We decided that it was so important that we needed to own the technology, and we're pretty excited about what we are going to deliver in December.

JOHN WALSH: Great. Thank you.

OPERATOR: (OPERATOR INSTRUCTIONS) Mark Griffin.

MARK GRIFFIN, ANALYST: You were talking about taking the Infravio product to the customers. I may have missed it. Did you give -- what kind of revenues you expect in 4Q from Infravio? I know you want to incorporate it into Fabric, but are you selling it on a stand-alone basis at this current time?

DAVID MITCHELL: That's correct. We are selling it as a stand-alone product, but it also will work very nicely, of course, once we complete some of the integration in December and January with the integration server platform and webMethods Fabric. But we didn't want to slow it down in the marketplace because we saw just such a tremendous pent-up demand for what it brings in terms of capabilities. And so it is out there now. Pretty soon we will be putting it up on the website so that people can download it. I can't tell you exactly when that's going to happen, but it is going to happen soon.

Our approach is really to try to get this out to as many places on the planet as possible because we think there is a significant opportunity here in the early stages of SOA adoption where companies are really thinking in broad terms around SOA. They are just thinking about gee, I need to get the services into a registry, and I need to put some governance around them. And if I do that I can kind of get through this first phase. We're seeing a lot of demand for that right now and we think we have some pretty differentiated capabilities. So we are trying to get that out as soon as possible. In terms of the breakout, we don't offer guidance on a product by product basis but my expectations are pretty high for this set of (multiple speakers).

JOHN DIFUCCI, ANALYST, BEAR STEARNS: I think you said before you acquired the company had about $1 million sales on an annual basis.

DAVID MITCHELL: That's right because the bulk of the resources, about 95% plus overall development engineers in India. They were just starting to build out their channel. I think they only had like three or four salespeople who are relatively new.

MARK GRIFFIN: Do you expect a larger number than that just on a quarterly basis with your much more broader sales force? I am just trying to get a perspective on.

DAVID MITCHELL: We are not offering guidance on the product but I will tell you that I have great expectations for what this thing is going to be able to do, and the feedback from, the sales force has been very positive.

CHRISTOPHER MARTIN: Okay. That's cool. Just one more question, if I can. You were talking about reorganizing the sales a little bit, and you taking the lead, and that is good to see.

DAVID MITCHELL: We did indicate, Mark, that we would see this as an accretive deal in Q4.

CHRISTOPHER MARTIN: Yes, yes, I got that part, I was just wondering what kind of sales you might expect as a stand-alone basis before you get it involved in Fabric, and I am sure once it gets into Fabric it is a whole other type of sale, and I was just looking to get more insight on that. But that's okay. I was just wondering moreover so as you alter the sales a little bit of comp, you're going to take lead, a few other things, obviously guidance for license for the December quarter is not that great. It's okay, it's flat; do you think going into the 4Q and then into '08 that all the

AJS000166

cuts will be behind you, all of the re-org will be and we will start to see a ramp up by 4Q, or you think it may take 4Q and then so maybe '08 we will see the ramp back into license?

DAVID MITCHELL: We've given you guidance for the current quarter, and that is our best view right now.

MARK GRIFFIN: No, I am not looking for numbers. I am more looking for as you change personnel and things sometimes in those transition periods sales hiccups kind of happen, and I am just wondering if you think those hiccups will be kind of over by the end of the December quarter or if it may just push. Because you're talking about most of the savings being obtained in the March quarter. Just wondering of all of those hiccups will be kind of done before the March quarter starts.

DAVID MITCHELL: Keep in mind the sales management team that is in place today is pretty much the same sales management team that was successful last year, and Rich has done a good job of building a lot of good processes and putting together tools and approaches to these accounts and during the transition period I'm going to be able to take advantage of what is in his head. And more importantly I am going to be able to take advantage of my current relationships with all these individuals, most of which were working for me before Rich came to the organization. So my hope is that there is not going to be any hiccups at all, but at the same time, there is transition and so we want to make sure that we manage it in a professional manner and that we don't jeopardize the opportunity that we see in the marketplace.

I do believe that Integration World is going to be a great event next week, and I think that will help us really tell the story to a much broader audience, but more importantly, accelerate some interesting sales cycles that are currently in the pipeline.

MARK GRIFFIN: Okay. Sounds great, guys.

CHRISTOPHER MARTIN: Operator, we have time for one more question.

OPERATOR: Your final question comes from David Hilal.

PHILIP DIONISIO, ANALYST, FRIEDMAN, BILLINGS, RAMSEY: This is Philip Dionisio for David. Could you just comment a bit more on your license guidance because it is disappointing for the December quarter. Is it you being conservative given the changes taking place, Rich leaving and then these Starter Packs being introduced?

DAVID MITCHELL: I think that based on what has happened over the last two quarters, it is very prudent to get as conservative as we can and we try to be conservative when we offer our guidance but at the same time given what has happened in these last two quarters we really have to take a hard look. I outlined the three things that we believe are what is causing or the root causes of what is going on in the performance. All three of those things have not been remediated, but we're going to be moving as fast as we can to make sure that we get those things going in a positive direction, and it really is our best view at this time.

In terms of the -- I didn't understand the relationship between the Starter Pack, the Starter Pack should actually help convert pipeline as opposed to hinder it. I didn't understand that part of your question.

DAVID HILAL, ANALYST, FRIEDMAN, BILLINGS, RAMSEY: It seems to be like, (indiscernible) it helps but it is still a new approach to selling, so maybe there is some [indecision] there.

DAVID MITCHELL: No. It is not really a new approach. It is just making it easier for the reps to not have to go through a lot of machinations to combine certain capabilities out of the Fabric suite to meet a certain requirement in the project. And then to figure out what the price is to make sense for the customer and the customer to think about it in terms of it being too expensive to get started. At the end of the day we have a lot of prospects out there who just want to get going, and quite frankly I don't want price to be a barrier there. I do better when I get in there, I get a project done, I get the project successful and then I build on that success going forward. And if we can't get in there and get the project done then we are just slowing ourselves down, and we have to get out of our own way and get these projects off the ground.

DAVID HILAL: Okay. Thank you.

DAVID MITCHELL: Well, I do thank you all for attending this evening, and look forward to talking to you soon. For those of you that are coming to Integration World, we look forward to seeing you. I think you'll find it is going to be a great event. With that I will say goodnight, and take care.

OPERATOR: This does conclude today's conference call. You may disconnect at this time.

[Thamson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

Document FNDW000020061116e2b20044d

1404436057 4

webMethods, Inc. Preliminary Q2 Fiscal 2007 Results - Final

5600 words
5 October 2006
Voxant FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: Good afternoon. My name is Todd, and I will be your conference operator, today. At this time, I would like to welcome everyone to the webMethods conference call. All lines have been placed on "mute," to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the Number 1 on your telephone keypad. If you would like to withdraw your question, press *, then the number two on your telephone keypad. Thank you.

Mr. Martin, you may begin.

CHRISTOPHER MARTIN, VP IR, WEBMETHODS, INC: Thank you, Operator. Good evening, everyone, and thank you for joining us. My name is Christopher Martin, Vice President of Investor Relations at webMethods. The purpose of today's conference call is to discuss our preliminary second quarter financial results.

Joining me today is David Mitchell -- our President and CEO. And Mark Wabschall, our Chief Financial Officer will also be joining us for the question-and-answer portion of today's call.

The press release we issued this afternoon regarding our results is available on the "Investors" page of our website, at www.webMethods.com [http://www.webMethods.com]. Our press release also has been furnished to the Securities & Exchange Commission, pursuant to a Form 8K.

Before we begin, please note that this conference call is being broadcast over the phone, and via a live webcast. This call is also being recorded and will be available for replay on our website, or by dialing the following numbers -- 1.800.642.1687 in North America, or 1.706.645.9291, outside of North America. The confirmation number is 8143195. And the conference call replay is available through October 12th, 2006.

During the course of this conference call, Management may make comments which are forward-looking in nature. These comments are intended to be forward-looking statements, for purposes of the Safe Harbor, provided by the Private Securities Litigation Reform Act of 1995.

These projections and other forward-looking statements regarding expectations may include comments regarding future business and financial metrics, our pipeline, future cost-savings and expense levels, costs of legal compliance matters or internal control matters, trends in the market for our products in the software industry, and expectations of future financial performance -- including total revenue and license revenue, operating margin, anticipated charges, net income and earnings per share.

Any forward-looking statements are subject to various risks and uncertainties that could cause the actual results of webMethods to differ materially. Please refer to the discussion of risks and uncertainties in today's press release and in our SEC filings. Specifically, review the discussion of risk factors in webMethods' most recent Form 10K -- which is on file with the SEC, and available electronically through EDGAR or a link on our investor relations website.

These forward-looking statements should not be viewed as a guarantee of or a commitment to any action or results, and our actual performance may differ materially from those measures indicated in our forward-looking statements.

These statements reflect the beliefs of management based on information available to us on October 5th, 2006 --

and webMethods does not undertake any obligation to update or correct any forward-looking statement due to the occurrence of events after this call.

I would now like to turn the call over to David Mitchell -- webMethods ' President and CEO. David?

DAVID MITCHELL, PRESIDENT, CEO, WEBMETHODS , INC: Thanks, Chris. Good evening and thank you for joining us.

We're here to discuss the preliminary financial results for Q2. We will defer any comments around guidance until the regular conference call scheduled for October 26th.

Our preliminary Q2 results show revenues in the range of $48.5 million to 50 million. This compares to our original Q2 guidance of $53.5 million to 56.5 million. We expect license revenues to be between $15.5 million to 16.5 million. Combined maintenance and services revenue are expected to be approximately $33 million to 33.5 million. GAAP loss-per-share is expected to be in the range of $0.08 to 0.06 per share, compared to our original guidance of GAAP earnings-per-share of between $0.02 and 0.07 per share.

We are still evaluating potential charges of in-process research and development costs, related to the acquisitions of Cerebra and Infravio, which occurred during the second quarter. These potential adjustments are not reflected in our preliminary results. While our total revenues were comparable to last year, our license revenue declined year-over-year. Obviously, these results are disappointing, and not what we had anticipated. It is clear that our performance is a result of a failure in execution.

While we will provide you with as much information as we have available today, we are still in the process of performing a detailed evaluation with regards to the root cause of these issues. We will provide more comprehensive analysis on our full earnings conference call on October 26th.

From a geographic perspective, we are expecting North America's Q2 total revenues to show growth on a sequential basis, as well as a year-over-year basis. Europe saw sequential improvement, but declined on a year-over-year basis. Asia-PAC -- including Japan -- continues to underperform, declining on both a sequential and year-over-year basis.

In Q2, we had 4 deals greater than $1 million. For the fiscal year-to-date, we've signed 6 deals greater than $1 million, as compared with the 10 for the first 6 months of the previous fiscal year. While we continue to maintain a healthy pipeline of significant transactions greater than 1 million, our inability to convert these opportunities is having a negative impact on our performance to date for the fiscal year.

To put it bluntly, our sales execution has not kept pace with the demand we have seen -- as evidenced by our product pipeline. We believe that the sales force processes are not adequately addressing the activity of identifying, inspecting, qualifying and closing this pipeline. As a result, conversion rates for the past 2 quarters have trailed our historic norm.

We have identified that we are experiencing inconsistent conversion rates -- specifically in the areas of SOA -- Service Oriented Architecture, and BPM -- Business Process Management.

We believe that the recent steps that we have taken will make a significant impact on improving this situation. Our recent acquisition of Infravio -- specifically -- will add both a product that can create a transactional pipeline, as well as a differentiated SOA offering.

We've already equipped our sales force with hands-on training for the Infravio product suite -- which is being made immediately available to the field. And we have a significant pipeline in place for them to execute against.

Our acquisition of Cerebra, along with our continuing investment in R&D will significantly strengthen our BPM offering in webMethods ' fabric, 7.0. This will be unveiled at next month's Integration World Customer Conference, here in Washington DC.

webMethods' Fabric 7.0 is expected to ship this December. We are taking immediate steps to fully and specifically analyze and correct our executinn challenges. Where we have people issues, we will address them appropriately. Where we have process issues, we will fix those processes. Where we have product issues, we will and already have taken the needed steps to ensure we have highly competitive products for the markets that we compete in.

In conclusion, there is hard work that needs to be done. I want to ensure everyone that I am sharply focused on improving our ability to convert the demand we are seeing in the marketplace -- optimizing our operating margins and building upon the demonstrated value that we have long delivered to our customers.

With that, Mark and I are available for your questions. Operator?

OPERATOR: At this time, I would like to remind everyone -- if you would like to ask a question, please press *, then the Number 1 on your telephone keypad. We'll pause for just a moment to compile the q-and-a roster.

Your first question comes from John DiFucci with Bear Stearns.

JOHN DIFUCCI, ANALYST, BEAR STEARNS: Thank you. David -- this one, I think, is especially disappointing for you -- and investors. Especially given the early start that you guys had -- which was mainly overflow from the previous quarter. Other than you said you were going to do some more work and get back to us on what happened. But I guess you had that strong start. You had 4 deals over a million. Were all 4 of those deals signed at the beginning of the quarter? And was it an end-of-the-quarter phenomenon again this quarter -- similar to last quarter?

DAVID MITCHELL: Yes. I'm trying to remember, John. Most of those deals were signed towards the end. Like we normally see, in terms of the backend nature of our pipeline. In terms of the closure process.

And we did have the impact of some slower summer activity -- particularly in Europe, where we got impacted the most.

JOHN DIFUCCI: Was there much change to the sales force from last quarter to this quarter? And if there was, given the disappointment last quarter, did that have much of an effect? Or was there not change? In your opening remarks, did you sort of allude that, "Well, maybe it won't be the same this time?"

DAVID MITCHELL: Well, any time you have attrition in any particular territory, you're going to take a little bit of a pause. We are not any different than any other software sales organization, where we do see some attrition quarter-in and quarter-out. And we add to that organization as we find more talented people, and deal with the under-performers appropriately. Either by retraining them, providing them with a lot more management guidance -- or, if it just doesn't work out -- replacing them.

We did take some actions last quarter, as a response to some of the poor performance. And I think you can expect that that activity will continue into this quarter.

JOHN DIFUCCI: Just a quick question for Mark. I know you haven't worked through it all yet, Mark. But what could we expect as far as cash flow from operations? Would we expect that to be negative this quarter?

MARK WABSCHALL, CFO, WEBMETHODS, INC: Yes, John. Thanks for the question. Obviously, we're still closing our books, and in that process. And the results here would have a negative impact on cash flow. So I don't have an answer for you, right now. But we will work through that.

JOHN DIFUCCI: Okay. Thank you.

OPERATOR: Your next question is from Tim Klasell, with Thomas Weisel Partners.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: First question, guys. You mentioned that the larger deals are getting or have been somewhat problematic in closing those. Can you tell us when you're working on the larger deals, is it slippage of these larger deals? Or are they getting broken up or compressed down to – let's say – the sub-million dollar level?

MARK WABSCHALL: It's primarily slippage.

TIM KLASELL: And then on the whole SOA charge out there. Is it making it more difficult for you to sell into an SOA-type sale? Because often, the application development crowd is a part of the decision making process. And you're one of the few out there without a container story, or something, for the traditional app developers. Is that handicapping you at all, out there? Or what's your thoughts around that?

DAVID MITCHELL: Well, as you all know, we did make a very concerted and deliberate effort last year to expand our product strategy to address the growing markets of BPM and SOA – related back to the primary integration business. WebMethods has focused on SOA for quite some time, and we had some pretty significant intellectual property.

But during our diligence in this market, and really working in a lot of these sales cycles, it became pretty obvious that there were certain white spaces in the product solution, where the buying behavior was starting to focus itself. And that's primarily in the area of strong registry support, combined with governance. They look to do that on any type of app server environment, as well as any sort of web services coming out from any other application.

What's compelling about Infravio is that they were selling their products to a lot of BEA shops and IBM WebSphere shops. So what we wanted to do, by getting the Infravio product – was not only strengthen our capability in the SOA marketplace, but to be able to go after those traditional franchise customers for BEA. And that's something that we're seeing develop in the pipeline, as we speak.

JOHN DIFUCCI: Okay. Very good. And then, Mark, a quick question for you. Can you give us sort of the rough split of services to support on that line?

MARK WABSCHALL: Yes. The maintenance revenues came in in-line with the guidance that we gave originally, of the 20.5. And the PS revenue is slightly below the guidance we gave of 13.5.

JOHN DIFUCCI: Okay. Great. Thank you very much, guys.

MARK WABSCHALL: Yes. Thanks.

OPERATOR: Your next question is from John Walsh with Citigroup.

JOHN WALSH, ANALYST, CITIGROUP: Hi, David. Could you talk about – you made the point about – the attrition. And last quarter, you made some changes. And this quarter, now – you would anticipate further changes? How should we think? Should there be expectations? Pushback a little bit? Because there seems to be a little bit more churn? And could you talk, maybe, about if you've grouped or identified why the salespeople aren't working out? They have gotten – is there something with the background, et cetera, you may look for in the future that may change that?

And then I guess contrasting that with last year, when the execution was pretty good, kind of really – besides the things you mentioned as far as slippage at the end of the quarter – last quarter – is there anything else you can detect about why the execution has trailed off this year?

DAVID MITCHELL: Attrition is something that you always deal with as a sales manager, in any particular territory. You have to hire the best and brightest individuals, and recruit those salespeople that are highly successful at other companies.

Obviously, with this performance, I have to question everything. And I have to take a very deep and hard look at management in the sales organization, to make sure that those processes are being followed, and take action accordingly. So we're going to get involved with that pretty significantly, over the next few days and coming weeks. And I hope to talk to more about it at the end-of-the-month earnings call.

I'm sorry -- the second part of your question was?

JOHN WALSH: Just any contrast that you could have, kind of on a year-over-year -- where last year, the execution was better. Is it the same people? Or anything that you've drawn from their background that would help us out.

DAVID MITCHELL: Yes. It's basically the same people and the same managers. What we're seeing is that some of these bigger deals are just taking a whole lot longer to close. And we're just not converting that pipeline that we continue to build. And obviously, one of the things that we noted this time around is that it appears as though our SOA and BPM pipeline conversion rates seem to be inconsistent.

So we hope, with the actions that we've taken on the product side, with a pretty aggressive stance on some of the people issues and process side, that we can get those to more-traditional conversion rates. Because we're definitely seeing a lot of opportunity. A significant portion of the pipeline is SOA and BPM driven. We just need to execute. And that's where we're falling down, right now.

JOHN WALSH: Okay. Great.

OPERATOR: Your next question is from Dino Diana, with UBS.

DINO DIANA, ANALYST, UBS: On the deferred revenue front -- can you talk to us a little bit about -- directionally -- what happened? Even if you don't have the final numbers?

DAVID MITCHELL: Yes. We're still working of course and reviewing the contracts with our auditors. But right now, we believe that's included in the license estimates that we've given you. There's approximately about a net $2.5 million of license revenue that was recognized out of deferred license revenue.

DINO DIANA: So you've taken --

DAVID MITCHELL: That compares to about -- I think we estimated about -- $0.5 million on our conference call in July.

DINO DIANA: That's not to say what you've added since? Or there's nothing really added? It's really the 2.5 that was recognized?

DAVID MITCHELL: The 2.5 would be net of transactions this quarter, which went into deferred -- versus transactions that we had in prior quarters that came out. In that 2.5.

DINO DIANA: The thing I thought we were saying -- that before this -- that it was a time-based contract, though? On the deferreds? Did you just -- were some of those milestones? Is that why you were able to recognize more?

DAVID MITCHELL: Yes. Obviously, we were able to recognize revenue under the accounting rule. We're going to go into more details here in the end of October, to go through those. And we will provide clarity on that.

DINO DIANA: Okay. And one other thing. On the comments about evaluating your purchase accounting. Are you just talking about the deferred maintenance kind of write-down over there? Is that what you're referring to?

DAVID MITCHELL: Yes. We've not done all the accounting for this, but we're working with our tax advisors, on coming up with the purchase price allocation. And in-process R&D write-offs. Because potentially, the accounting adjustment to deferred maintenance is another one of the deferred revenues that you're talking about.

We'll certainly have those details on our conference call in October. Since we didn't have that information here, we wanted to point that out -- that these numbers don't reflect that.

But what they do reflect is, we did pick up the operating results of Infravio, from the time we purchased them at the end of September, and the month-and-a-half of the operating results of the employees and assets that we acquired from Cerebra. That is included in the numbers.

DINO DIANA: And David -- you mentioned that where there's people issues, you're going to address them, and in this process, you'll change it. Last quarter -- do you have any kind of metric to give us what the churn was? Both voluntary and involuntary in the sales force? And what do you think -- in terms of looking at what's going to happen? It made it sound like you were going to make some changes, there. Do you have any sense for the magnitude?

DAVID MITCHELL: Not yet. Still, working pretty aggressively on this issue. Last quarter, we spent a lot of time and effort, certainly, working with the existing pipeline and the salespeople that were managing that pipeline, and the managers that were managing those salespeople. Particularly around the processes of inspection, and qualifying, and understanding what the steps were necessary to get these deals closed.

And for some of the meat-and-potatoes transactions, we seemed to make some progress. It's these larger transactions that continue to kind of drag on. I don't think that we're going to see any kind of massive churn in the sales organization, but I do believe that there are some changes that we're going to have to make.

DINO DIANA: Okay. Thanks.

DAVID MITCHELL: You can expect that I'm going to get on it pretty aggressively.

DINO DIANA: Okay.

OPERATOR: Again, to ask a question, press * 1.

And your next question comes from the line of Gregg Moskowitz with Susquehanna.

GREGG MOSKOWITZ, ANALYST, SUSQUEHANNA: Thanks. Just a follow-up on one of Dino's questions. In terms of the operating expenses from the 2 acquisitions. Mark -- is there any rough sense that you can give us, in terms of how much that added to OpEx in the quarter?

MARK WABSCHALL: Yes, certainly. We bought Infravio on the 28th of September, so we basically have 2 days of expenses.

GREGG MOSKOWITZ: Yes.

MARK WABSCHALL: And so they're not significant, at all. Most of the headcount's based in India. So that did not have a significant impact. But we bought the assets and employees of Cerebra. That was done mid-August. And we're talking about 14 employees and some office expense in California. So, not significant.

GREGG MOSKOWITZ: Within the bound of the license revenue range that you provided -- where, roughly, are you expecting gross margins to come out?

MARK WABSCHALL: Yes. We're not providing that data, at this time -- as we're closing the books. We don't have the cost estimates at that level.

GREGG MOSKOWITZ: Fair enough. And maybe just one last one for David. Is there any commentary that you can give us, just in terms of vertical activity during the quarter? And specifically, if you could just address what you saw in the government vertical. Thanks.

DAVID MITCHELL: I don't believe we've completed the analysis of all the transactions in terms of the vertical activity. I know we did pretty good in financial services, and a couple of other -- the traditional verticals.

But we'll provide all that detail at the earnings call.

GREGG MOSKOWITZ: Thank you.

OPERATOR: Your next question is from Sterling Auty, with JP Morgan.

STERLING AUTY, ANALYST, JP MORGAN: Yes. Thanks, guys. A couple of questions. I want to go all the way back to when we were on the June quarter final earnings call. There was some discussion of contracts that closed that had slipped out of the June quarter. And I think there was an impression that there was a fair amount of revenue associated with those. Can you at least give us a sense as to how much of the license revenue was from the deals that slipped from June?

DAVID MITCHELL: Yes. On our conference call, we indicated that we had closed 9 of 12 deals that had slipped. And we said they closed about 2/3 of the $6 million gap. So there'd be approximately about $4.5 million. And there really was not much change since our call at that time.

And there are a couple of deals that we are still actively pursuing, going into Q3.

STERLING AUTY: Okay.

MARK WABSCHALL: There's a new -- two of those deals are bigger transactions, and we're continuing to work on them. But they did slip out of this quarter, as well.

STERLING AUTY: Okay. And then as you look at the geographic performance, just relative to your expectations, where was the biggest dollar-amount shortfall, in terms of underperformance?

DAVID MITCHELL: Well, clearly, we continue to be really disappointed in Asia-Pacific and Japan. We're just not seeing it recover at the rate that we want it to recover. So we're going to spend a lot of time and effort analyzing the investments, there -- and figuring out what the process issues are -- what the people issues are -- and get that going back up again.

Europe did get impacted by a much slower summer than what we've seen in the past. I do believe that they continue to have a pretty healthy pipeline. They're seeing a lot of BPM activity, so they're real exited about what's coming in webMethods 7, and the big rollout integration world. So we'll have a lot of European customers showing up for that.

But APJ continues to be a problem child for us, and we have to fix that.

STERLING AUTY: But in terms of the actual dollars -- remind me -- because I don't have it right in front of me. How big is Asia-Pacific as a percentage of the total?

DAVID MITCHELL: Yes. I don't have those specific stats in front of me, but it's pretty normal for us on the regular earnings call, to provide you with some granular detail, in terms of what's coming from what region. We did see that APJ not only declined on a sequential basis, but they also declined on a year-over-year basis.

STERLING AUTY: Okay. Because I thought Asia-Pacific was around kind of 4 million or something like that. So, looking at the magnitude of the shortfall, is the bigger dollar shortfall than based on what you're saying, coming from Europe, or also that you were expecting that much more growth out of North America?

MARK WABSCHALL: Yes. You're right. As a proportion of total revenues, Asia-Pacific's been around 9% of our total revenues. And Japan's been around 5%. North America's, of course, the largest one -- around 62% last quarter. And then Europe, around 23%. So, dollar-wise, you're right. The biggest contribution is from North America and Europe.

STERLING AUTY: And then last question would be -- and I know you have to go back and --

DAVID MITCHELL: It sure would've helped if International had met some of the objectives.

14044360580

STERLING AUTY: No. I hear you. I know you have to go back and scrub the data, but just in terms of the qualitative. As you were going through the final month of the quarter – you usually get a sense as to where the contributions are coming from. Is there a sense that it was some of the upstarts? Some of the sales reps that were coming up the curve, that got off the starting line real quick? Maybe fell back for a couple of quarters here? And just need to go through a transition? Or is it kind of across-the-board, in terms of all different levels of seniority, in terms of where some of the issues might be?

DAVID MITCHELL: I've actually been pretty impressed with a lot of the newer guys. We've got some veterans here that traditionally do very well. And I just have to really understand what's going on with some of these bigger-deal transactions, and how we can get a better balance in our deal flow, so that we can back-stop some of these trigger deals, as they move from quarter-to-quarter.

So I'm actually impressed with some of the newer guys, quite frankly. They seem to be really figuring it out. I had a couple of guys I know of that did pretty well.

STERLING AUTY: All right. Thank you, guys.

OPERATOR: Your next question comes from Jonathan Rudy with Fiduciary Trust.

JONATHAN RUDY, ANALYST, FIDUCIARY TRUST: Yes. Considering the strength in the marketplace, yet your inability to execute, is it time to consider selling the Company, as a means of realizing some value for shareholders?

DAVID MITCHELL: We're here to build the best company that we can, and the strongest company that we can, so that we can maximize value for our shareholders, long-term. We're going to continue to invest in the strategies that we've been executing on. We're going to make some course corrections, in terms of some of the sales processes that we have in place. We're going to get very aggressive with the Infravio product line in our core SOA business. We're going to continue to invest in terms of sales reps chasing our existing customer base.

One of the interesting things that has started to happen for us, as a company, is that the customers that we have and that've been using our products for multiple years, have really started to build strong relationships with us at the CIO level. And what we're finding is that we're starting to become a Tier 1 or Tier 2 vendor to these CIOs – which means we're "mission critical" to their business.

What we have to figure out as an organization is how to get that Tier 1 or Tier 2 value back to webMethods. I think once we start to crack that formula is when things are going to get pretty interesting.

So we're still extremely excited about the opportunity that we have. We cannot fail on execution. And that's something that we're very disappointed on, and that we will correct, as soon as possible.

JONATHAN RUDY: Why does this feel like this is the exact same conversation we had 3 months ago?

DAVID MITCHELL: Well, because we failed to execute 3 months ago, I imagine. We continue to focus on these execution issues. We continue to see strength in our pipeline. We do believe that the SOA and BPM marketplaces will help us get growth going in our core business of integration. And we have to figure these out.

JONATHAN RUDY: Thanks.

OPERATOR: Your final question comes from Gregg Moskowitz with Susquehanna.

GREGG MOSKOWITZ: Hi, guys. Just a quick follow-up. About 3 weeks ago, after the Infravio acquisition -- David, I believe you mentioned that SOA has a recent inflection point, in terms of moving from proof of concept to widespread adoption. And you talked about having some product gaps that you filled with the 2 recent transactions.

DAVID MITCHELL: Particularly with Infravio.

GREGG MOSKOWITZ: Right. So what I'm wondering is, you have your usual conference in about a month. What are you expecting in terms of how quickly you get the sales force? I know they've started to be trained. But how quickly they are fully trained, as well as getting to the point where you can fully educate your customers, to be able to consummate these deals? Or is there going to be any kind of change in the sales cycle that you envision, just from that part of that process, with some of these new products?

DAVID MITCHELL: I actually think it's going to accelerate existing SOA sales cycles. We're already seeing that start to happen with some very key prospects that we were selling to before the Infravio acquisitions. In fact, we were told by a number of key prospects just over the last 2 weeks that they were kind of wondering about where we were going on our product strategy. And it really became clear to them after the Infravio acquisition that we had something that was truly differentiated and truly competitive.

So our sales guys are telling me that they're going to start seeing some accelerated activity. And I think the Integration World Conference is a perfect venue to launch this. But keep in mind, these guys have already got it in their bags today. There's already been a massive amount of training done on a global basis. We continue to do training every Monday for our sales organization. Our SEs. This is not anything that the SEs have had to make huge mental leaps, in terms of the ability to grasp it. This is something that they have been familiar with for quite some time.

So I think putting this product into the hands of our sales force that already gets how to sell SOA is going to be pretty exciting.

Okay. With that, I'd like to say thank you for your time. And we'll be talking to you at the end of the month. Take care.

OPERATOR: This concludes this evening's conference call. You may now disconnect.

Document FNDW000020061019e2a5001p9

1404435084

webMethods, Inc. Merger & Acquisition Announcement - Final

5313 words
11 September 2006
Voxant FD (FAIR DISCLOSURE) WIRE
FNDW
English

OPERATOR: Good morning; my name is Sandra and I will be your conference operator today. At this time I would like to welcome everyone to the webMethods conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (OPERATOR INSTRUCTIONS). Mr. Martin, you may begin your conference, sir.

CHRIS MARTIN, VP, IR, WEBMETHODS: Good morning, everyone, and welcome to webMethods' conference call announcing the acquisition of Infravio. Joining me today is David Mitchell, our President and CEO, and Infravio's CEO, Srinivas Balasubramanian. Mark Wabschall, our Chief Financial Officer, and Rich Chiarello, our Chief Operating Officer, will also be joining us for the question-and-answer portion of this morning's call.

The press release we issued this morning regarding the announced acquisition is available on our website, that is www.webmethods.com [http://www.webmethods.com]. Before we begin please note that this conference call is being broadcast over the phone and via live webcast. This call is also being recorded and will be available for replay on our website or by dialing the following number -- 1-800-642-1687 in North America, or 1-706-645-9291 outside of North America. The confirmation number is 625-2826 and the conference call replay is available through September 15, 2006.

During the course of this conference call management may make comments which are forward-looking in nature. These comments are intended to be forward-looking statements for the purposes of the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. These projections and other forward-looking statements regarding expectations may include comments regarding future business and financial metrics; our pipeline; trends in the market for our products and in the software industry; future market opportunities; future expense levels and future financial performance including total revenue, license revenue, operating margin, anticipated charges, net income and earnings per share.

Any forward-looking statements are subject to various risks and uncertainties that could cause the actual results of webMethods to differ materially. Please refer to the discussion of risks and uncertainties in this morning's press release and in our SEC filings. Specifically review the discussion of risk factors in webMethods most recent Form 10-K which is on file with the SEC and available electronically through EDGAR or a link on our Investor Relations website.

These forward-looking statements should not be viewed as a guarantee or commitment to any action or result and our actual performance may differ materially from those measures indicated in our forward-looking statements. These statements reflect the belief of management based on information available to us on September 11, 2006 and webMethods does not undertake any obligation to update or correct any forward-looking statement due to the occurrence of events after this call. I would now like to turn the call over to David Mitchell, webMethods' President and CEO. David?

DAVID MITCHELL, PRESIDENT, CEO, WEBMETHODS: Thank you, Chris, and thank you, everyone, for joining us. As underscored by today's announcement, we believe that the SOA market has reached an inflection point as organizations seek to move from proof of concept to enterprisewide adoption. In order for organizations to achieve scalable and sustainable success with service-oriented architecture they require the right tools for building SOA-based business solutions as well as the appropriate management around these services throughout the entire IT lifecycle. This is called SOA governance.

The biggest barrier to SOA success today is the lack of governance. As the leading industry research firm, Gartner noted recently service-oriented architecture governance isn't an option, it's an imperative. Without governance every SOA project out of the pilot phase is at risk. Our definitive agreement to acquire Infravio demonstrates the importance that we and our customers place on governance. Infravio is the leading independent provider of SOA governance solutions. Infravio's customers span many industries as well as the government sector.

What differentiates Infravio is their ability to address the entire SOA lifecycle. What this means is that unlike competitive solutions, Infravio's technology addresses SOA governance requirements that facilitate the design, runtime and change management of the implementation. By bringing together best in class SOA registry, repository and governance within a single product suite the addition of Infravio will provide our customers with the industry's first end-to-end platform for SOA management and governance.

1440443605585

In conjunction with the other components of the webMethods fabric product suite as well as the recently acquired assets of Cerebra this acquisition creates a highly differentiated platform for SOA management. Once integrated webMethods' customers will benefit from enhanced industry first concepts that will accelerate SOA adoption in two distinct ways -- one, guided SOA governance. SOA best practices are built into the product making a wealth of knowledge immediately accessible to users. Interactive tutorials will be used to shorten the learning curve. This approach will rapidly extend user proficiency, ensuring greater consistency and quality in the development process while reducing costly trial and error.

Two, enterprise class SOA. WebMethods' integrated SOA platform also helps organizations deliver and maintain service level agreements backed by enterprise class quality of service while also facilitating expanded reuse of the services. Enabling mission critical performance as well as enterprise level reuse are fundamental requirements for organizations seeking to scale their SOA efforts beyond the pilot stage to deliver maximum value.

Beyond the differentiated strength that their technology offers us, we are also excited by the number of additional go-to-market synergies that this deal provides. Infravio currently has a small U.S. focus primarily direct salesforce. With our significantly larger global salesforce and already developed SOA pipeline we believe that we will capitalize on this acquisition almost immediately. In addition, our established relationships with strategic systems integrators around the world including Accenture, Cap Gemini, Bearing Point, Deloitte, PCS, Infosys and Wipro will help us to further extend our marketplace reach.

Infravio brings us additional assets in the form of their development facility in Chennai, India which employs approximately 50 developers. With regards to timing, we expect that the transaction will close this September at a total purchase price of approximately $38 million in cash. Upon closing we will sell and support Infravio's products on a stand-alone basis and we expect to subsequently integrate their products within webMethods' fabric by December of this year.

We anticipate minimal financial impact within the current quarter ending September 30, 2006. We expect that the deal will be slightly dilutive to our subsequent third quarter as we integrate the two companies together. We expect the deal to become accretive beginning with the fourth quarter of our current fiscal year.

Over the past year the importance of SOA governance has been clearly established; it is what makes SOA viable and successful at the enterprise level. As such, today's announcement represents an important milestone for webMethods. Coupled with our recent acquisition of Cerebra it significantly bolsters our position for capitalizing on one of the most important IT trends since the advent of client server.

I'm also proud to say that it demonstrates our commitment to doing SOA the right way, in a way that actually addresses real market needs and challenges. Our complete set of fully integrated SOA tools assures our customers that the path toward SOA will yield quick and impressive enterprisewide results. Before I conclude today's remarks I would like to introduce the CEO of Infravio, Srinivas. Srini?

SRINIVAS BALASUBRAMANIAN, FOUNDER AND CEO, INFRAVIO: I believe that this is the best outcome for me, my brother who cofounded the Company with me, and for the entire team at Infravio. I also believe that we have the best SOA governance solution in the market and that webMethods has the best SOA strategy, vision and commitment. I'm thrilled that we're now going to be part of the webMethods family. Back to you, David.

DAVID MITCHELL: Thank you, Srini. In closing I would like to reiterate that we have the domain expertise, the momentum and the core competencies to take advantage of the opportunities before us. So with that I'd like to open it up for your questions. Operator?

OPERATOR: (OPERATOR INSTRUCTIONS). John DiFucci, Bear Stearns.

JOHN DIFUCCI, ANALYST, BEAR STEARNS: Was Infravio profitable or cash flow positive and can you tell us what the revenue run rate was?

MARK WABSCHALL, CFO, WEBMETHODS: This is Mark Wabschall. We will be providing further financial information on our earnings call. But what I can tell you is that their revenues were less than $1 million. They do have a low cost structure with 50 of their 65 employees in India. And they have a relatively small salesforce and that's one of the factors in the acquisition for us is that we'll be able to leverage our existing salesforce to sell their product.

JOHN DIFUCCI: Okay. Mark, then are we going to have to wait for you to tell us how dilutive it will be in the third quarter then?

MARK WABSCHALL: Yes, that's correct. Right now for the current quarter, September, obviously we'll only be having ownership of that company for a couple of weeks, so it really will not have a significant impact. And we'll bake in the impact for our guidance on Q3 on our October earnings call.

JOHN DIFUCCI: Okay, thanks a lot.

OPERATOR: Tim Klasell, Thomas Weisel Partners.

TIM KLASELL, ANALYST, THOMAS WEISEL PARTNERS: Two quick questions. One, can you sort of compare when a customer would begin to start deploying the Infravio solution? What stage would they be in in their SOA lifecycle? And can you compare that to what webMethods' install base looks like?

DAVID MITCHELL: There's probably a number of answers to that question based on different customers' implementation scenarios. But because it's the addition of these technologies with what webMethods already has it's pretty much a comprehensive end-to-end SOA platform. So if you're creating the services and you need to put them in a registry you're going to want to put governance rules around those services, you're going to want to deal with security issues, you're going to want to deal with the enterprise class service level agreements.

This is all reflected in terms of capabilities in that platform and the ability to kind of guide the user through all those lifecycle steps is what's unique and differentiated here. So from beginning to end our customers would use this product for their SOA implementations.

TIM KLASELL: Okay, very good. And then one quick follow-up on that. Can you walk through the competition, Systinet and others, who would Infravio typically bump into as far as competition is concerned?

DAVID MITCHELL: Pretty much just Systinet and in our due diligence in terms of the space there really isn't anybody else left that offers this capability in such a comprehensive manner. So we're pretty excited about the completeness of their solution. And they really did it the right way. They had a very low-cost structure, but they were able to put the right amount of engineering talent against these requirements. And 50 engineers in Chennai -- I've been there, I just got back from there and they're brilliant and that's what's probably helped them the most in terms of getting all this capability.

My understanding is that Systinet actually lacks certain capabilities in key areas, particularly around the governance.

So we're excited about this and getting it into our channel which is obviously significantly larger. But we already have a pipeline for this, so we're going to move pretty quickly.

TIM KLASELL: What should be an ASP for this if you're going to be selling it to your installed base?

DAVID MITCHELL: Rich, what do you think the impact will be on the transaction size and the salesforce readiness?

RICH CHIARELLO, COO, WEBMETHODS : Well, they're two separate things. The transaction price, since this lends itself to the ability to start incrementally and build up, I'd say an ASP would probably be more like 250 versus where we've been averaging between 400 and 500 on the integration side only. The great thing about this is you have granularity of product and revenue. And so you can start small, get into SOA and then as expand have webMethods participate in that revenue stream as opposed to integration which you'd typically put right in the heart of what you're doing and it's pretty hard to start small.

As far as the salesforce readiness; this is something that we have been building a market around for a while. Our SOA master classes have been greatly attended, probably our most successful marketing campaign in the last two years ago, this is just a natural flow of where most of the customers who were willing to go forward in this early adoption phase, if you will, of SOA want to have governance and sort of a guided approach to how do we do this and get to be successful? And so the salesforce has been trained and prepared and our customers and prospect's conditions for this concept of starting SOA with a plan and rules and governance and a methodology.

TIM KLASELL: Okay, good. And then I want to follow up with you, Mark. 65 people -- I know there's a different cost structure in India . What should we be layering in for expenses as far as the acquired company is concerned?

MARK WABSCHALL: As I mentioned earlier, there really won't be an impact for this quarter and we'll be providing that level of guidance, Tim, on our earnings call as we integrate the two companies together, but it does have a lower cost structure within India and Chennai. And also has a relatively small U.S. presence and we'll be able to consolidate facilities. So it shouldn't have that big of an impact on cost structure.

DAVID MITCHELL: Most of the positions in the U.S. are going to be filling open positions that we have.

TIM KLASELL: Very good. Thanks a lot.

OPERATOR: Sterling Auty, JPMorgan.

STERLING AUTY, ANALYST, JPMORGAN: I just wanted to clarify again, I didn't quite catch it. So all but just a few employees are actually based in India , is that correct?

RICH CHIARELLO: That's correct. It's approximately 65 and I would say that in India there was at least 50.

STERLING AUTY: And then Mark, you said that revenue for the last year revenue life today is less than 1 million.

MARK WABSCHALL: That's correct.

STERLING AUTY: How long have these guys been shipping for revenue?

DAVID MITCHELL: I'm sorry, repeat your question.

STERLING AUTY: How long have they been shipping product to generate revenue? I mean, given it's so small, you've got 65 -- I understand they're mainly developers. So it sounds like this is a company that was just getting past the revenue stage?

DAVID MITCHELL: They had annual revenues at their last fiscal year ending June of about $1 million and they've been selling this product now for a couple of years.

MARK WABSCHALL: They've had a few major releases. In fact most recently there was a 6.5 release, Srini? 6.2 release? So it has gone through multiple iterations and multiple customer implementations.

STERLING AUTY: Why do you think the uptick or why the small revenue amount? Do you think it's that the product was --?

DAVID MITCHELL: I think it's channel. The amount of people that they had working on this product and will continue to have working on this product was substantial for any product development organization. And so, keeping that cost structure down was key to their strategy and the next phase I believe of the business plan, had they not met up with us, was to double down on their investment and distribution and that was just getting underway. So we're excited that we're able to deliver this into our channel that pretty much has already been building pipeline around this capability.

STERLING AUTY: And you mentioned that you already have pipeline for it, so you're saying that there are customers that are actually asking for solutions in this space and this is going to deliver a product?

RICH CHIARELLO: Absolutely. They're looking -- again, you've got to remember, they're looking not just for the product, right? The concept of what products are SOA registry, but they're looking for someone to bring the product with the methodology.

STERLING AUTY: Okay, thank you very much.

DAVID MITCHELL: You've got to remember that last year was really about -- in terms of SOA was about proof of concept laboratory work. There was a lot of focus on registry, there were a couple of pure plays out there -- just experimentation, and there was a lot of vandalism and that kind of thing. Today it's really about what we're seeing is enterprisewide adoption these projects. Governance is the most important thing that they're thinking about right now, not just the registry aspect. And we're excited that we really have this first end-to-end capability that addresses the entire SOA lifecycle. (multiple speakers) pretty exciting.

STERLING AUTY: Thank you.

OPERATOR: Gregg Moskowitz, Susquehanna.

GREGG MOSKOWITZ, ANALYST, SUSQUEHANNA: Thanks and congratulations on the acquisition. A follow-up on the ASP question. I think, Rich, you had mentioned that you think the ASP for Infravio could be on the order of 250K as part of the webMethods' solution. Where was it tracking -- and I realize this is off a low revenue base -- but where was it tracking as a stand-alone company? With kind of low six figures or how did that tick out?

RICH CHIARELLO: Well, I think a couple things you've got to remember. To start a private company you also are building your first set of referenceable customers, so you have a combination of product and professional services in order to build a base, much like how webMethods got started before it went public, right? So if you just tried to carve out and say how much of that was license, it would -- it's a little bit hard to say, but it would be less than that.

In addition you have a tendancy from a private company without a real foothold in North America or Europe to anticipate spending a little bit less on kind of like a wait-and-see than you would anticipate we would get at webMethods. One only need to look at what we did to the average selling prices of Dante's optimized product once it came on board. And pretty much is a good analogy that said this is (indiscernible) monitoring at the time we acquired Dante in 2003 was in the early stages of adoption, proof of concept.

GREGG MOSKOWITZ: Okay. And are you anticipating any change in the sales cycle once the technology is integrated with fabric?

RICH CHIARELLO: Well, our sales cycle today stretches the world of VPN business activity monitoring coming together with SOA, right? And so if you look at the whole fabric suite, what we are assembling in the beginning of release seven is the ability for someone to model an application and then using the capabilities of metadata to be able to find Web services without knowing the exact URL and just be able to search in context like you would on Google, find the right Web services but at that point understand their service levels, etc., be able to incorporate the right Web services and be able to actually get the value and the use out of SOA that you couldn't get if this was one stand-alone product you were tying together with another stand-alone product. So to that extent we really see a lot of synergies.

MARK WABSCHALL: Obviously it's still early days, but our hope is to actually accelerate these cycles with a much more complete set of capabilities.

GREGG MOSKOWITZ: Great. And then just lastly, since the technology will be embedded in fabric, just wondering if you can clarify what Srini's role will be with the Company as well as his brother?

DAVID MITCHELL: They're both going to stay with the Company. We'll have more information to share with you on the next call that we do. But Srini is very focused on the integration effort at this point. We've got to get the deal closed, we've got to integrate the teams. Mukund, his brother, is going to continue to lead the engineering effort and report to Christin Muhlner as EVP of product development. And we're going to move very fast to really give him the channel that he's been looking for.

GREGG MOSKOWITZ: Great, thanks very much.

OPERATOR: (OPERATOR INSTRUCTIONS). Rich [Sealy], TechTarget.

RICH SEALY, ANALYST, TECHTARGET: I just wanted to ask if you could elaborate on the inflection point you're seeing in SOA, what you're actually seeing in the market that represents that?

DAVID MITCHELL: Sure. I can't provide any hard-core statistics at this point, but I will tell you that from the salesforce's perspective it was a negligible part of their pipeline last year and it's become very aggressive and robust this year. In fact, it is significant. And so that tells us as management that these projects are moving out of that proof of concept stage. We're seeing projects already over the map from the low six figures to the mid six figures to even now multi-million dollar SOA projects. It's very similar to the way client/server started to grow and emerge, we're seeing similar behavior here.

RICH SEALY: Good, thank you.

OPERATOR: Dino Diana, UBS.

DINO DIANA, ANALYST, UBS: Sorry about that. How many customers did Infravio have?

MARK WABSCHALL: Infravio has about a couple dozen customers today.

DINO DIANA: Okay. And I read at this point last year that they had 17 customers. Is that right?

MARK WABSCHALL: That sounds reasonable; I don't know what you're referring to.

DINO DIANA: Okay. I'm just wondering because I read somewhere that they had 17. If they have a few thousand now and the ASP's at 250K, is there some kind of -- I mean, how do you go from 17 to whatever it is -- 36?

DAVID MITCHELL: Dino, maybe you weren't on the call when we talked about this, but what Infravio has really been working on to date is building the broadest set of capabilities for this IT lifecycle management around SOA and really focusing on the governance. So most of their effort and investment has been in the R&D with about 50 developers in India, multiple iterations. And they've been doing some customer acquisition along the way to get feedback, they've been working very aggressively with those customers to get them referenceable.

And the next phase of their development was going to be investment in the channel -- specific investment in the channel. That's really what webMethods brings to the table. In fact, we're not waiting for this to be integrated with our overall fabric platform, we can sell this stand-alone today, and so we're going to be releasing this immediately to our salesforce as soon as the deal is closed so that they can start selling the product as is.

DINO DIANA: I understand. I was on the call actually. What I'm wondering is (multiple speakers)

DAVID MITCHELL: It's our guess at what we think we're going to get in the first phases of this distribution capability.

DINO DIANA: So do you have an actual ASP for what they were doing before kind of your estimate you have factored in?

DAVID MITCHELL: I think it would be because the base is so small it wouldn't be meaningful. And keep in mind they were doing a lot of services to really get those customers up and running. And you have to do a lot in the -- having been the 10th employee at webMethods way back when, I remember quite fondly that you really have to focus on getting the first few customers successful and not really concern yourself with just maximizing license revenue right in the beginning of those relationships.

DINO DIANA: And in terms of Merck, Merck bought Systinet and I guess that was in January, BEA bought Flashline, how do you see yourself kind of differentiating versus -- I didn't hear you mention Flashline. Did Infravio see them in the end deal?

MARK WABSCHALL: No, Flashline is not this capability. Flashline is really closer to what we did with Cerebra.

DINO DIANA: More on the repository side?

MARK WABSCHALL: In terms of that metadata capability. The company that looks the most in terms alike in terms of technology is probably Systinet.

DINO DIANA: Okay. So I guess differentiate because you're offering more end to end.

MARK WABSCHALL: That's correct.

DINO DIANA: Okay. Lastly on the (multiple speakers)

MARK WABSCHALL: And the governance piece. The governance piece is pretty significant and we'll be talking a lot more about that in coming weeks.

DINO DIANA: Okay. And lastly, they opened stores that believe in ESP to better sell I guess their registry and their repository. I know it probably doesn't even come close to comparing to what you guys offer, but your lowest end kind of ESB offering, is there any chance that this -- could this become your lower end ESB or is it just too light compared to what you already have?

MARK WABSCHALL: We've got a lot of exciting plans for what we're going to do with these capabilities, and again, we're going to share more of that in coming weeks.

DINO DIANA: Fair enough. Thank you.

RICH CHIARELLO: This truly was a jewel; we're glad to have done this.

CHRIS MARTIN: Operator, we have time for one more question.

OPERATOR: Sterling Auty, JPMorgan.

STERLING AUTY: Can you talk about what do you think the sales cycles are going to be like for this technology? I'm just trying to get an understanding of you mentioned customers need this type of solution, but how long is it going to take for the salesforce to really understand the ins and outs of the product, get it in front of customers so that you can actually get purchase orders on this thing?

RICH CHIARELLO: You've got to remember, this isn't a new market for us all of a sudden to be getting into. We've been selling into this market space already for a couple of years. We have products in this space already and so we understand what the cycles are. What we're seeing and one of the leading factors to drive this forward is more and more demand from customers and prospects to basically go through a cycle where they get educated on what is possible with SOA and the potential benefits and very quickly seem to limit it to just a few players that have a meaningful solution.

And much like other technology acquisitions, do some technical briefings and go right to a proof of concept. And it's during that proof of concept that the PowerPoints and the website separate it from reality and in the customers that I've spoken to of this company already. What they have found, and I've asked them, there's only really two venders they looked at, this one and brand ["S"], and what they found was that this was a much more meaningful product as far as achieving their goals of reuse and governance and that nothing else came close. And so I anticipate us continuing to lean on that type of a sales cycle which force's the proof of concept with meaningful criteria to have a sales cycle culminate in a license.

STERLING AUTY: So customers have been looking at it and testing it. Just what I'm trying to look at -- I think strategically it makes sense, I get that. I'm just wondering how reasonable is it to go from a company that did less than $1 million in trailing 12-month revenue, has 65 employees and doing the number of deals that are going to be necessary whether it's 200 or 300 a pop to get this thing to be accretive in March, that's what I'm wondering.

DAVID MITCHELL: We believe that that's what our expectation should be based on what we see in our already developed pipeline; the new pipeline that we'll create with these capabilities and the fact that this is what we do. We know how to do this, particularly SOA. And the sales reps are going to embrace this very aggressively, including the SE's who have already been trying to address this for a couple years now with proof of concept.

STERLING AUTY: Do you think that given March quarter being your fiscal fourth quarter this gets rolled into a couple larger size deals, so it's not like trying to get 10, 11, 12 of deals that like 240 a pop, but (multiple speakers)

DAVID MITCHELL: This will absolutely help us build larger transactions, get greater share of wallet from the customer base. Keep in mind, we also have integration world happening in November, usually get about 1000 people to attend that event. That's happening in Washington D.C. in November this is going to be front and center for all of those great customers and new prospects. So we think there's going to be a lot of interesting momentum in Q3 and Q4.

STERLING AUTY: Thanks, guys.

CHRIS MARTIN: Thank you so much for joining us this morning and we'll see you later. Take care.

OPERATOR: This concludes today's conference call. You may disconnect at this time.

ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

Document FNDW000020060925e29b000b6

webMethods Expands India Development Center; Growing Presence Within the Indiau Market Designed to Facilitate Faster Product Rollouts and More Comprehensive Customer Support

633 words
24 August 2006
08:30 AM
PR Newswire (U.S.)
PRN
English

FAIRFAX, Va., Aug. 24 /PRNewswire/ -- **webMethods**, Inc. (Nasdaq: WEBM), a leading business integration and optimization software company, today announced the opening of its expanded **India** Development Center (IDC) in Bangalore, **India**. Since launching the IDC in 2004, **webMethods** has grown its presence in **India** as a core component of its strategy to accelerate and expand product development in support of the company's award-winning product suite, **webMethods** Fabric(TM). In addition, the IDC also serves as an important component of **webMethods**' "follow-the-sun" service model, which distributes customer service requests across multiple global facilities to improve the speed in which these requests are met.

"By serving as a 'center of excellence' for a number of development disciplines, the IDC has enabled us to further enhance the efficiency and quality of our development efforts. We're delighted by the opportunity to further expand our presence with the opening of a new IDC facility," said Kristin Muhlner, executive vice president, Product Development, **webMethods**, Inc. "Having developed a significant competency with our core technology, the IDC is playing an important role in our next major release, which will enable further advances in end-user productivity through even tighter integration of service-oriented architecture with business process management. The IDC has also proven critical to our efforts to deliver seamless customer service on a 24-by-7 basis."

webMethods first initiated development in **India** two years ago with the company's in-country workforce having grown considerably over the subsequent time period. With these increased economies-of-scale, **webMethods** has been able to reduce research & development (R & D) costs despite total R & D headcount remaining constant. The new IDC facility will allow **webMethods** to further expand this workforce.

The IDC also supports the operations of **webMethods** Global Services with Bangalore-based consultants helping to meet customer requirements throughout **India** and across the broader Asia-Pacific region. In addition, these consultants work closely with many of **webMethods**' partners that are based in the region, helping to facilitate the mixed delivery models -- on-site/off- site development -- being employed by corporations around the world.

"Our investments in **India** to date have produced significant dividends for **webMethods**, which has led us to expand our commitment to the IDC," said David Mitchell, president and CEO, **webMethods**, Inc. "Beyond its impact on accelerating software development, the IDC has also proven to be an important base for expanding our collaboration with key partners. Our SOA-based technology is allowing these partners to leverage the benefits of service reuse to increase the speed and efficiency in which they're able to create highly targeted solutions for their end customers."

Mitchell and Muhlner attended yesterday's official opening of the IDC in Bangalore, **India**.

About **webMethods**, Inc.

webMethods (Nasdaq: WEBM) provides business integration software to integrate, assemble and optimize available IT assets to drive business process productivity. **webMethods** delivers an innovative, enterprise-class business integration platform that incorporates proven integration technology with next generation capabilities into one interoperable set of tools that delivers a unique combination of efficiency, agility and control. **webMethods** combines industry leadership with a zealous commitment to customers to deliver tangible business value to over 1,400 global customers. **webMethods** is headquartered in Fairfax, Va., with offices throughout the U.S., Europe, Asia Pacific and Japan.

The **webMethods** name and logo are registered trademarks of, and **webMethods** Fabric is a trademark of, **webMethods**, Inc. All other marks mentioned are trademarks or service marks of their respective companies.

SOURCE **webMethods**, Inc.

John Conley of webMethods, Inc., +1-703-460-5996, or John.Conley@webMethods.com

200608240830PR_NEWS_USPR_____DCTH008.xml

Document PRN0000020060824e28o003h9

1404435094

webMethods expands its India Development Center

Growing Presence Within the Indian Market Designed to Facilitate Faster Product Rollouts and More Comprehensive Customer Support

FAIRFAX, Va., Aug. 24, 2006 -- webMethods, Inc. (Nasdaq: WEBM), a leading business integration and optimization software company, today announced the opening of its expanded India Development Center (IDC) in Bangalore, India. Since launching the IDC in 2004, webMethods has grown its presence in India as a core component of its strategy to accelerate and expand product development in support of the company's award-winning product suite, webMethods Fabric(TM). In addition, the IDC also serves as an important component of webMethods' "follow-the-sun" service model, which distributes customer service requests across multiple global facilities to improve the speed in which these requests are met.

"By serving as a 'center of excellence' for a number of development disciplines, the IDC has enabled us to further enhance the efficiency and quality of our development efforts. We're delighted by the opportunity to further expand our presence with the opening of a new IDC facility," said Kristin Muhlner, executive vice president, Product Development, webMethods, Inc. "Having developed a significant competency with our core technology, the IDC is playing an important role in our next major release, which will enable further advances in end-user productivity through even tighter integration of service-oriented architecture with business process management. The IDC has also proven critical to our efforts to deliver seamless customer service on a 24 by 7 basis."

webMethods first initiated development in India two years ago with the company's in-country workforce having grown considerably over the subsequent time period. With these increased economies-of-scale, webMethods has been able to reduce research & development (R & D) costs despite total R & D headcount remaining constant. The new IDC facility will allow webMethods to further expand this workforce.

The IDC also supports the operations of webMethods Global Services with Bangalore-based consultants helping to meet customer requirements throughout India and across the broader Asia-Pacific region. In addition, these consultants work closely with many of webMethods' partners that are based in the region, helping to facilitate the mixed delivery models -- on-site/off- site development -- being employed by corporations around the world.

"Our investments in India to date have produced significant dividends for webMethods, which has led us to expand our commitment to the IDC," said David Mitchell, president and CEO, webMethods, Inc. "Beyond its impact on accelerating software development, the IDC has also proven to be an important base for expanding our collaboration with key partners. Our SOA-based technology is allowing these partners to leverage the benefits of service reuse to increase the speed and efficiency in which they're able to create highly targeted solutions for their end customers."

Mitchell and Muhlner attended yesterday's official opening of the IDC in Bangalore, India.

About webMethods, Inc.

webMethods (Nasdaq: WEBM) provides business integration software to integrate, assemble and optimize available IT assets to drive business process productivity. webMethods delivers an innovative, enterprise-class business integration platform that incorporates proven integration technology with next generation capabilities into one interoperable set of tools that delivers a unique combination of efficiency, agility and control. webMethods combines industry leadership with a zealous commitment to customers to deliver tangible business value to over 1,400 global customers. webMethods is headquartered in Fairfax, Va., with offices throughout the U.S., Europe, Asia Pacific and Japan.

The webMethods name and logo are registered trademarks of, and webMethods Fabric is a trademark of, webMethods, Inc. All other marks mentioned are trademarks or service marks of their respective companies.

1404436050996

eWEEK

News

WebMethods Acquires Infravio for SOA Boost; The $38 million deal beefs up WebMethods' SOA capabilities with a services registry and governance functionality.

Renee Boucher Ferguson

769 words
11 September 2006
eWEEK
PCW
English

WebMethods, which develops process integration software, announced Sept. 11 its intentions to acquire Infravio, a company best known for its service-oriented architecture governance repository and its tireless work with SOA standards-setting groups.

WebMethods will pay about $38 million for Infravio in a deal that is expected to close by month's end. The company employs 65 people, including 50 developers in Chennai, **India**. All of the employees, including founder Srinivas Balasubramanian, will be moving over to **WebMethods**.

The acquisition of Infravio further builds out **WebMethods**' capabilities in the SOA world by adding a services registry and governance functionality-key capabilities as more companies move toward a services-based approach to building composite applications based on specific business processes. While a lot of software developers have evolved to the point of providing services-components of their software available for integration with other services-there is still a growing need for the ability to register and govern the growing mass of services.

"As more groups across the enterprise adopt SOA, the need for governance becomes more acute," Miko Matsumura, vice president of marketing at Infravio, told eWEEK. "This jump-starts our efforts to address this market demand as well as advances customers' ability to create a governed enterprisewide portfolio of capabilities that can be recombined into business services."

Jason Bloomberg, an analyst with ZapThink, in Waltham, Mass., said **WebMethods** has "seen the SOA writing on the wall for a while now. As a proprietary EAI [enterprise application integration] vendor, they really have little choice but to tell the SOA story, and in fact, they've been doing a reasonably good job telling that story, given that what they're really selling is an integration infrastructure."

However, by acquiring Infravio, **WebMethods** is bringing in a clear thought leader in the SOA space, Bloomberg said.

"Infravio is at the eye of the SOA storm, focused on registry/repository, SOA governance, and service life-cycle management," Bloomberg said. "The issue now is one of execution: Can Infravio's leadership raise **WebMethods**' SOA efforts to a leadership position, or will **WebMethods**' EAI ball and chain swamp Infravio's vision? Only time will tell."

WebMethods, of Fairfax, Va., has slowly been transitioning from its roots as an enterprise application integration company to a services integration company based on SOA standards. In October 2003, **WebMethods** acquired three companies that formed the basis of its SOA strategy: Business Activity Monitoring software developer Dante Group; Web services infrastructure software maker The Mind Electric; and portal builder DataChannel.

The Mind Electric turned out to be a particularly key acquisition: The company's founder and chief architect, Graham Glass, became the chief technology officer of **WebMethods**, and its GLUE software provided **WebMethods** with the basis for its Fabric platform for building and deploying distributed applications from any Java object. Glass has since left **WebMethods** to form a community education program called EDU 2.0.

After integrating the three companies, **WebMethods** announced Fabric in 2004. It has since built on its capabilities both organically and through acquisition. In August the company bought Cerebra, a privately held company that develops semantic metadata management technology. That company's software is being embedded into the Fabric platform.

Click here to read about **WebMethods** Access, a new component of Fabric.

Infravio is, in a sense, the front end of **WebMethods**' SOA-building software since SOA governance enforces the policies and procedures that determine how developers, IT staff and business users actually utilize services through an SOA life cycle (defined as design and run-time to ongoing changes in the system).

Infravio's software will be integrated into the Fabric platform by the fourth quarter.

"With the acquisition of Infravio, combined with our recent acquisition of Cerebra, we are demonstrating our commitment to doing SOA the right way-a way that actually addresses real market needs and challenges," said David Mitchell, president and CEO of **WebMethods**, in a statement.

WebMethods' acquisition of Infravio represents a continuation of the consolidation in the SOA space. Earlier this year, Mercury Interactive acquired Systinet, another SOA registry and governance provider, after which Mercury itself was acquired by Hewlett-Packard. Also, Progress Software acquired Actional, a Web services management software provider. Other SOA consolidation moves include SOA Software acquiring Blue Titan, IBM acquiring Webify Solutions, and BEA Systems acquiring Flashline.

Check out eWEEK.com's Web Services Center for the latest news, reviews and analysis in Web services.

renee_ferguson@ziffdavis.com

188286

Document PCW0000020060913e29b00004

1404436598

AJS000193

Smaller IT firms moving jobs to India: Report

548 words
19 September 2006
The Press Trust of India Limited
PRTRIN
English

Washington, Sept 19 (PTI) Although the past trend in outsourcing was confined to larger technological firms shifting research and development resources overseas, the phenomenon is now catching up on the small and mid-sized software companies moving into India.

Additionally, it has been pointed out that by getting into India, where resources are still available at a fraction of American prices, the smaller start-ups are able to catch the attention of larger firms looking to make promising investments, 'The Washington Post' noted.

The report also pointed to the fact that many Washington DC metro-based firms were fanning out to different parts of India, including Chennai, Pune and Bangalore.

The first example cited is that of when WebMethods looked at tiny California technology firm Infravio Inc as an acquisition candidate, the Fairfax company knew that Infravio's product would be a perfect fit for its software suite. But the "real head-turner" about the 65-person start-up was the location of its employees -- 50 software developers in Chennai.

What is being pointed out is that WebMethods paid USD 36 million as a premium price for a small company that made less than USD one million last year but that in the longer term perspective the purchase plays into the cost-cutting strategy WebMethods has adopted "Two years ago, WebMethods opened its 58-person India Development Centre in Bangalore and chopped millions of dollars from its budget as a result. The Infravio purchase nearly doubles the company presence in India," The Post said.

WebMethods has 840 employees around the world and is into software that lets different applications in a computer system work together.

Since opening its Bangalore centre in 2004, WebMethods saved USD 5 million in research and development expenses, which totaled USD 40.2 million for the year ended March 31, according to the company's annual report cited by The Post. The decrease "was primarily the result of increasing the proportion of our product development staff in Bangalore, which has lower personnel and operating expenses than our product development centres in the United States," the company said.

Analysts said WebMethods, which reported a USD 5.8 million loss in its first quarter ended June 30, will most likely expand its staff in India. And the new acquisition may lead to lower earnings in the next three months before turning into profits by the end of March.

Other Washington metro area companies were also turning into the overseas talent pool with business and government information technology provider IMC Inc of Reston employing 120 developers in its subsidiary in Pune and the Vienna (Virginia) based Indus Corporation opening a subsidiary in Bangalore four years ago with six developers rising to 30 and planning more than 200 in the next two years, the paper said.

Acquisitions in the view of Muir Macpherson of Georgetown University's McDonough School of Business are the easiest way for American companies to enter the foreign market.

"We're going to see a lot of deals that are taking advantage of an established workforce overseas. Buying up the operations of a company already based in a foreign country can solve a lot of problems and reduce a lot of risk," Macpherson told The Post.

Document PRTRIN0020060920e29j0004k

The Washington Post: Smaller Firms Buy Overseas Shops; WebMethods Follows Trend

BYLINE: Kim Hart, Washington Post Staff Writer
September 18, 2006 Monday

When WebMethods Inc. looked at tiny California technology firm Infravio Inc. as an acquisition candidate, the Fairfax company knew that Infravio's product would be a perfect fit for its software suite. But the real head-turner about the 65-person start-up was the location of its employees: 50 software developers in Chennai, India.

Analysts consider the $38 million WebMethods paid to be a premium price for a small company that made less than $1 million last year. In the long run, though, the purchase plays into the cost-cutting strategy WebMethods has adopted after four years of falling stock prices, roller-coaster revenue and accounting problems.

Two years ago, WebMethods opened its 58-person India Development Center in Bangalore, and chopped millions of dollars from its budget as a result. The Infravio purchase nearly doubles the company's presence in India.

While large technology companies have been moving research and development resources overseas for nearly a decade, such outsourcing has also become important for small and mid-size software firms.

"Like a lot of software companies, WebMethods is trying to rationalize its costs by having as much research and development offshore as they possibly can," said Irit Elrad-Jakoby, an analyst that follows the company for Next Generation Equity Research LLC in Chicago.

WebMethods, which has 840 employees around the world, makes software that lets different applications in a computer system work together.

Since opening its Bangalore center in 2004, WebMethods saved $5 million in research and development expenses, which totaled $40.2 million for the year ended March 31, according to the company's annual report. The decrease, the company said, "was primarily the result of increasing the proportion of our product development staff in Bangalore, which has lower personnel and operating expenses than our product development centers in the United States."

Analysts said WebMethods, which reported a $5.8 million loss in its first quarter ended June 30, will most likely expand its staff in India. After going public in 2000, the company's stock price has been steadily dropping from a peak of around $100 in 2001. WebMethods closed Friday at $8.17, down 13 cents.

Ten WebMethods executives have resigned in the past two years, and the company restated its 2004 financial earnings after discovering accounting errors by employees in its Japanese subsidiary.

Mark L. Wabschall, WebMethods' chief financial officer who will leave the company at year-end, said he expects the acquisition to lower earnings in the next three months before turning out a profit by the end of March.

Infravio's presence in India "is a sweetener for this deal, and not a trivial one," said Gregg Moskowitz, an analyst with the Susquehanna Financial Group.

"The bar to make this an accretive transaction is much lower due to Infravio's low cost structure."

1404436061

AJS000196

Other Washington area companies have also taken the plunge into the overseas technological talent pool. Business and government information technology provider IMC Inc. of Reston employs 120 developers in its subsidiary in Pune, a town south of Mumbai.

Indus Corp., a Vienna-based firm that sells information technology services to the federal government, opened a subsidiary in Bangalore four years ago with six developers to maintain internal support systems. The office now has 30 employees and will have more than 200 in the next two years as the company goes after more commercial clients, chief executive Shiv Krishnan said.

Acquisitions are often the easiest way for U.S. companies to enter the foreign market, said J. Muir Macpherson, assistant professor of strategic management at Georgetown University's McDonough School of Business.

"We're going to see a lot of deals that are taking advantage of an established workforce overseas," he said. "Buying up the operations of a company already based in a foreign country can solve a lot of problems and reduce a lot of risk."

Peter S. Kastner, vice president of IT research for the Aberdeen Group, a Boston market research firm, said venture capitalists are looking for companies with offshore development branches now that the market in India is maturing.

"The economics of the software business are such that you can't get venture capital funding unless you can show that you do research and development economically," he said. "So they're demanding an offshore outfit before they'll fund companies."

By stretching into India, where development resources are readily available at a small fraction of U.S. prices, small start-ups can also catch the attention of larger companies looking to make promising investments.

Manugistics Group Inc., a Rockville software company with 200 developers in , India, found that out in July when it was bought by Arizona-based JDA Software Group Inc. for $213 million. While Manugistics' presence abroad wasn't the main reason for the acquisition, "it was an added bonus," said Jenni Ottum, a JDA spokeswoman.

Infravio is the second company acquired by WebMethods in the past month. The company bought privately held Cerebra Inc. in August for an undisclosed price.

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2006

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission File Number
1-15681

webMethods, Inc.
(Exact name of Registrant as Specified in Its Charter)

Delaware	54-1807654
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3877 Fairfax Ridge Road, South Tower, Fairfax, Virginia	22030
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (703) 460-2500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.01 par value
Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

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

As of September 30, 2005, there were 53,653,038 shares of the registrant's Common Stock outstanding. The aggregate market value of such shares held by non-affiliates of the registrant, based upon the closing sale price ($7.07) of such shares on the Nasdaq National Market for such date, was approximately $375.4 million.

As of June 12, 2006, there were outstanding 55,195,175 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement to be used in connection with the registrant's 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated. That Proxy Statement will be filed within 120 days of registrant's fiscal year ended March 31, 2006.

WEBMETHODS, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED MARCH 31, 2006

TABLE OF CONTENTS

Part I

Item 1.	Business	1
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	20
Item 2.	Properties	21
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	21

Part II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	40
Item 8.	Financial Statements and Supplementary Data	40
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	40
Item 9A.	Controls and Procedures	40
Item 9B.	Other Information	42

Part III

Item 10.	Directors and Executive Officers of the Registrant	43
Item 11.	Executive Compensation	43
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	43
Item 13.	Certain Relationships and Related Transactions	43
Item 14.	Principal Accountant Fees and Services	43

Part IV

Item 15.	Exhibits and Financial Statement Schedules	43
Signatures		44

References in this Annual Report on Form 10-K to "webMethods," "we," "us" or "our" include webMethods, Inc. and its subsidiaries unless a statement specifically refers to webMethods, Inc.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Examples of forward-looking statements include, but are not limited to:

- projections of revenue, costs or expense, margins, income or loss, earnings or loss per share, capital expenditures, cash requirements or other financial items, effective tax rate, sufficiency of working capital and projections regarding the market for our software and services;
- statements of our plans, objectives or expectations, including the development or enhancement of software, development and continuation of strategic partnerships and alliances, contributions to revenue by our business partners, implementation and effect of sales and marketing initiatives, future financial results, future financial results within geographic or specific markets and the allocation of resources to those markets, predictions of the timing and type of customer or market reaction to sales and marketing initiatives, the ability to control expenses, anticipated cost savings or expense reduction strategies, future hiring, business strategy and the execution on it and actions by customers and competitors;
- statements of future economic performance or economic conditions, the continuation of patterns identified as trends or seasonal occurrences or the impact of recent or anticipated changes in accounting standards;
- statements of our plans for remediation of a material weakness, or other changes, in our internal controls over financial reporting; and
- assumptions underlying any of the foregoing.

In some instances, forward-looking statements can be identified by the use of the words "believes," "anticipates," "plans," "expects," "intends," "may," "will," "should," "estimates," "predicts," "continue," the negative thereof or similar expressions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, our expectations reflected in the forward-looking statements could prove to be incorrect, and actual results could differ materially from those indicated by the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to risks and uncertainties, including (but not limited to) those discussed in Item 1A under the caption "Risk Factors." Achieving the future results or accomplishments described or projected in forward-looking statements depends upon events or developments that are often beyond our ability to control. All forward-looking statements and all reasons why actual results may differ that are included in this report are made as of the date of this report, and we disclaim any obligation to publicly update or revise such forward-looking statements or reasons why actual results may differ.

PART I

Item 1. BUSINESS

OVERVIEW

webMethods is a leading provider of business integration and optimization software. Our products and solutions enable our customers to improve the performance of their organizations by implementing and accelerating business process improvements. We work with our customers to increase the efficiency of their activities, improve their ability to adapt to changing market conditions, and create competitive advantage through a focus on the business processes that run their organizations. We use the term "Business Process Productivity" to describe this process-centric approach to business performance improvement.

We market and sell our products and solutions primarily to the largest 2,000 corporations worldwide (the "Global 2000") and major government agencies. We license software and sell our services primarily through our direct sales organization augmented by other sales channels, including our strategic software vendor partners, major systems integrators with whom we have strategic alliances, other strategic partners and distributors and, to a lesser extent, resellers. We license our software primarily on a perpetual basis.

In our fiscal year ended March 31, 2006, we added approximately 140 new customers, and no single customer accounted for more than 10% of our revenue in any quarter of that fiscal year. As of March 31, 2006, we had approximately 1,400 customers around the world, distributed across our target markets in manufacturing, process industries (such as chemicals, oil and gas, life sciences, metals, paper and plastics), financial services, consumer goods manufacturing and retail, government and telecommunications.

PRODUCTS AND SOLUTIONS

webMethods Fabric

Our primary offering is webMethods Fabric™, a unified business integration and optimization product suite that combines the following capabilities into a single integrated software platform:

- Proven enterprise application integration ("EAI") and business-to-business ("B2B") integration capabilities drawn from our product leadership in those markets.
- A comprehensive set of capabilities for implementing Service-Oriented Architecture ("SOA"), which enables customers to extend the value of existing IT assets by converting them into reusable components that can be reassembled and reconfigured to meet new business needs. These capabilities include an integrated Web services registry, Web services monitoring, mediation, and management functionality, and real-time analytics for managing service levels.
- Mature Business Process Management ("BPM") capabilities that are not only targeted at integrating an organization's core, high-volume, mission-critical business processes, but which also include rich workflow capabilities that allow manual tasks and human decision points to be incorporated into an end-to-end business process.
- Patent-pending Business Activity Monitoring ("BAM") capabilities that provide real-time visibility into business process performance, as well as the ability to predict exceptions by comparing current activity with historical norms.

Although similar capabilities can be found in competing software products, we believe that the unification of these technologies into a common architecture, common operating environment, and common user experience differentiates webMethods Fabric from the products offered by our competitors.

In April 2005, we launched webMethods Fabric 6.5. In addition to numerous detailed feature enhancements, this release delivered significantly higher levels of integration between the components discussed above, as well as considerable usability improvements designed to make end-users of the technology more productive. The latest version of the product suite provides users with a seamless end-to-end experience from defining a business process, assigning the real-time business metrics that they want to use to track business performance, creating the services and linking in the systems involved in the process, deploying the results for end-users, and then monitoring the solution in action.

Other significant developments in the fiscal year ended March 31, 2006 include the following:

- In August 2005, we announced a strategic partnership and reseller agreement with NEON Systems, Inc. (now DataDirect Technologies, an operating unit of Progress Software Corporation), that allows us to offer NEON's Shadow RTE® mainframe integration technology for companies wanting to connect to mainframe systems and data using standard Web services technology.
- In November 2005, we announced a licensing agreement with Fair Isaac Corporation to incorporate Fair Isaac's Blaze Advisor, a leading rules management product, as the embedded rules engine for future editions of webMethods Fabric. This capability provides business users with added versatility

and ease-of-use in the way in which business rules and policies are created, managed, and changed within the webMethods Fabric operating environment.

- In December 2005, webMethods Fabric was certified for conformance to the Common Criteria for IT Security Evaluation (ISO Standard 15408). The Common Criteria certification is accepted internationally as a definitive standard for guaranteeing that the integrity and security architecture of a technology have been thoroughly tested and validated by an accredited, third-party source. In the USA, various government departments and agencies have policies requiring the use of Common Criteria certified technology under certain scenarios.

webMethods Fabric's capabilities are organized into four product groupings: Enterprise Services Platform, Business Process Management, Business Activity Monitoring and Composite Application Framework.

Enterprise Services Platform

The webMethods Enterprise Services Platform™ is the integration and SOA foundation of the webMethods Fabric product suite. Conceptually, it serves as the basis by which systems are integrated and made available as reusable business services, which can then be linked together into new business processes or assembled into new software applications. The key capabilities of the webMethods Enterprise Services Platform include the following:

- *Proven business integration functionality* that provides customers a unified XML-based environment for addressing both application-to-application and business-to-business integration scenarios, including the ability to connect reliably to a variety of legacy systems and packaged applications, communicate securely across firewalls, perform data transformations and mappings, and manage a community of trading partners.

- *An extensive library of adapters* that provides customers a standard mechanism for integrating applications that have proprietary programming interfaces, such as those from vendors like Oracle Corporation and SAP. Using adapters, developers do not have to learn the technical intricacies of each interface; instead, they have a graphical interface for configuring the operations to be performed against a software application. An adapter development kit simplifies the creation of custom adapters for software applications that are not supported within our broad library of adapters.

- *Support for a wide range of electronic commerce protocols* that enable customers to integrate their information systems with those of their business partners to automate inter-company interactions, such as order management, inventory synchronization, logistics management and supply collaboration. Supported protocols and e-business standards include EDI, EDIINT (AS1, AS2, and AS3), RosettaNet, CIDX, PIDX, FIX, SWIFT and ebXML.

- *High performance messaging middleware* that serves as the communications layer in the webMethods Fabric architecture, and which enables the real-time, event-driven interactions needed for BAM and other high-volume applications that require reliable message delivery and a scalable publish/subscribe architecture capable of processing thousands of messages per second. A Java Message Service ("JMS")-compliant interface is also available.

- *Web services enablement and management features* that allow customers to make integration assets created with webMethods Fabric and existing application functions available as standard Web services, and then to manage the deployment of those services and any other Web services in the environment, irrespective of where they originate, with enterprise-class quality of service. The Web services management capabilities integrated into webMethods Fabric include a service registry, security, load balancing, fail-over, and unique real-time service-level monitoring functionality enabled by our patent-pending technology.

Business Process Management

Our BPM capabilities facilitate the design, deployment, and monitoring of business processes that involve interactions between computer systems as well as people. Some business processes are automated, requiring minimal manual intervention (usually only to address exceptions), whereas other types of business processes, such as loan or claims processing, are primarily manual in nature. Our BPM offerings support both scenarios. By providing an easy-to-use process modeling environment that shields users from the underlying software applications and technical complexity, our solution makes it feasible for non-technical staff to play a productive role in defining business processes. The visual design environment allows customers to create workflow solutions, including the associated user interfaces for presenting users with tasks and information, with minimal software coding effort.

Business Activity Monitoring

Our BAM offering has capabilities that are based on a patent-pending technology that provide customers with a real-time view into key business performance indicators (for example, order processing time), and the ability to be alerted proactively when results deviate from established norms (for instance, if orders start taking longer than normal to process). The close integration between our BPM and BAM capabilities means there is minimal incremental effort for the user to identify which metrics to monitor for a given business process. Our BAM offering further reduces the effort on the part of the user by automatically monitoring certain pre-identified metrics and using statistical analysis to establish normal patterns of behavior. This allows the system to alert the user to an exception to such patterns of behavior, through a unique feature called "fingerprinting," enabled once the system observes current readings deviating from previously-seen ranges. The advantage of our approach is that users are not required to define limits manually, and the system automatically adjusts thresholds based on actual data (for example, accommodating variations in order processing time depending on the time of day). The real-time nature of these capabilities enables customers to anticipate exceptions, allowing them to respond quickly and, potentially, to avoid impact to the business. The ability to do root-cause analysis is a further decision-making benefit, helping customers determine the specific factors contributing to a business process exception.

Composite Application Framework

The webMethods Composite Application Framework™ enables customers to assemble new applications from the services made available by the webMethods Enterprise Services Platform and other sources of Web services. It provides an alternative to coding traditional client/server or Web applications from scratch and is especially advantageous when there is an inventory of existing business components from which to assemble new software applications. The webMethods Composite Application Framework includes a portal that serves as the primary user interface for these composite software applications, allowing people — both inside and outside the organization — to be provided with personalized, secure, access to the application functionality, information, and business processes that are relevant to their job function or relationship to the organization.

Business Process Productivity Solutions

In 2005, we launched a series of targeted Business Process Productivity™ solutions that address specific industry needs. Our solutions combine the webMethods Fabric suite with intellectual assets that include the following:

- Personalized user interfaces and reporting dashboards to speed and simplify end-user adoption.
- Predefined business templates, rules, processes and key performance indicators to enhance the immediate business value that these solutions can deliver.
- Documented reference architectures, implementation methodologies, targeted training programs, and user-based business case analysis to help ensure successful implementation of the software.

Our initial set of solutions are directed in the areas of compliance, financial services, and demand-driven enterprises (e.g., manufacturing, retail). We anticipate developing further solutions in these and other areas in the future.

webMethods for Compliance

webMethods for Compliance includes a continuous controls monitoring solution for Sarbanes-Oxley and other regulatory requirements. The solution provides businesses with the ability to continuously and automatically monitor their compliance control points without the risks or costs associated with manual testing and controls. A compliance dashboard alerts users to exceptions when control points are violated, while document management capabilities improve and secure information flow by managing control and disclosure procedures. As part of our strategy to target the compliance market, we entered into strategic partnerships with Bwise, Inc., a provider of compliance and enterprise risk management software, and Certus Software, Inc., a provider of corporate governance and compliance software.

webMethods for Financial Services

webMethods for Financial Services includes a payments processing solution that helps wholesale banks and other financial institutions optimize their corporate payments operations and reduce transaction costs while effectively managing associated customer service level commitments. This solution helps organizations avoid financial penalties by continuously measuring adherence to important customer-specific Key Performance Indicators. This enhanced, real-time process monitoring can also be used to deliver additional customer benefits, such as the ability for end-users to immediately determine payment status, which provides corporate customers with greater control over the execution of these transactions while allowing banks the opportunity to assess additional fees as a result.

webMethods for the Demand-Driven Enterprise

webMethods for the Demand-Driven Enterprise includes solutions for demand fulfillment monitoring, sales and operations planning, and store integration. Collectively, the solutions help enterprises bridge the gaps within their supply chains that prevent them from responding effectively to changes in demand.

The demand fulfillment monitoring solution helps manufacturers to increase the accuracy of order fulfillment by more effectively and consistently matching supply with demand throughout their operations. Increases in proper order fulfillment translate into benefits such as inventory reduction and shorter order-to-cash cycle times.

The sales and operations planning monitoring solution helps retailers and manufacturers predict and respond more rapidly to changes in demand. By providing supply chain executives with a consolidated, real-time view into their sales and operational planning environment, organizations can quickly detect changes in demand and respond accordingly. This approach can be critical in bringing products to market and aligning the various resources needed across sales, marketing, production, and manufacturing. We entered into an agreement with Blue Agave Software, a provider of software solutions for improving replenishment, demand management and fulfillment execution, to complement our offering.

The store integration solution allows retailers to monitor sales at an item and category level and to analyze point-of-sale data in near real-time to spot trends and to compare actual sales against forecast data. The benefits of this solution include more responsive promotional activities and improved time-to-market.

SERVICES

We offer a range of professional services to assist our customers both during the initial deployment of our products and thereafter to address our customers' needs through the entire project lifecycle. Our professional services consultants are located throughout the Americas, Europe/Middle East/Africa ("EMEA"), Japan and Asia Pacific regions, allowing us to provide localized, on-site support across our global customer base. Our services include "jump start" packages and full project implementations; advisory services, including architecture and performance assessments, and services concerning strategy and best practices with regard to the establishment of integration competency centers; product training; and ongoing outsourced maintenance and operational support. We may provide these services directly or augment the efforts of a systems integration partner.

Our professional services organization has developed GEAR, an implementation methodology derived from our experience and specific to our products. GEAR provides customers with best practices, project templates, white papers, and other tools. Together, these resources assist in gathering requirements, capturing the scope of the project, defining the architecture, implementing a solution, and rolling out the finished system.

We have invested in developing a Service-Oriented Architecture strategy and architecture service offering to help customers clarify their SOA strategy and cost-justify investments for both IT and business management. Our SOA methodology involves a 10-step roadmap for customers that culminates in the delivery of an SOA business vision, architecture blueprint, and plan that addresses the organizational and procedural aspects of implementing SOA.

We offer training and continuing education to help ensure the success of our customer implementations. We provide a mix of classroom, onsite, and online training designed to best meet our users' requirements. We have regularly scheduled courses covering our entire product line and more than 20 key topics of interest to developers, administrators, and business analysts.

We offer our customers a variety of support and maintenance plans designed to meet their specific needs, including the option of 24-hour coverage, seven days per week. We have established a "follow-the sun" support model designed to ensure that our personnel are available during the business day in a variety of time zones around the world, with major support centers in Virginia and California in the United States, and in Australia, Japan and the Netherlands. Our resellers and distributors generally provide initial software support to their customers, and we provide secondary support on more complicated issues. Our support and maintenance customers and partners also have access to the webMethods Advantage™ extranet, which provides access to product documentation, discussion groups, implementation guides, technical advisories and access to our customer service management system that allows individuals to submit and monitor the status of any technical issues.

SALES AND MARKETING

We license our software and sell our services primarily through our direct sales organization. Secondary sales channels include our strategic software vendor partners, major systems integrators with whom we have strategic alliances, other partners and distributors. In Japan and our Asia Pacific region and, to a lesser extent, in EMEA and the Americas, we also license our software through resellers, who may also sell our consulting and implementation services. We have relationships with a number of resellers or distributors with expertise in certain industry sectors or countries in which we do not currently have a significant number of direct sales personnel. We license our software primarily on a perpetual basis.

Our direct sales organization consists of sales representatives and pre-sales consultants supported by personnel with experience within the industries we target. At March 31, 2006, our sales and marketing personnel serving North America were located in our headquarters in Fairfax, Virginia, and in approximately 19 other offices in the United States and Canada. At that date, our sales and marketing personnel in EMEA were located in nine countries, and our sales and marketing personnel in Japan and our Asia Pacific region were located in Australia, Japan and five other countries. Information on revenue we derived from our Americas, EMEA, Japan and Asia Pacific operations, as well as long lived assets located in those geographic regions, is included in Note 20 of the Notes to Consolidated Financial Statements included elsewhere in this report. We expect to continue expanding our sales and marketing group through targeted recruitment of qualified individuals.

Our sales efforts are focused on customers, prospective customers and business partners in manufacturing, process industries (such as chemicals, oil and gas, life sciences, metals, paper and plastics), financial services, consumer goods manufacturing and retail, government and telecommunications.

The sales cycle for our software typically ranges from six to nine months. A prospective customer's decision to use our products may involve a substantial financial commitment, which may require a significant evaluation period and approval from or by the customer's senior management. A customer's decision to license certain of our products may also involve significant user education and deployment costs, as well as substantial involvement of the customer's personnel. Due to the nature of our business, we have no inventory.

We have experienced quarterly fluctuations in our operating results and anticipate fluctuations in the future. In the past we have experienced certain general seasonal factors, from time to time, such as when revenue in our second fiscal quarter (ending September 30) has been positively impacted by budgeting cycles of the U.S. Government, and has been negatively impacted because businesses often defer purchase decisions during summer months. In addition, revenue in our third fiscal quarter (ending December 31) has been positively impacted by the end-of-year budgeting cycles of many Global 2000 companies, and revenue in our fourth fiscal quarter (ending March 31) has been positively impacted, as revenue in our first fiscal quarter (ending June 30) has been negatively impacted, by the annual nature of our sales compensation plans. Quarterly revenue and operating results depend on the volume and timing of orders received, which may be affected by large individual transactions that sometimes are difficult to predict.

PRODUCT DEVELOPMENT

We pursue a judicious mix of internal development, technology acquisition, and strategic partnerships to allow us to offer a compelling and differentiated solution.

We focus our ongoing product development efforts on a combination of enhancing, broadening, and deepening the functionality of our core products to address new industries, marketplaces, geographies and software alliances as well as bringing about innovations to meet emerging opportunities. We have dedicated a significant amount of effort to integrating our various product capabilities to realize the vision of webMethods Fabric as a unified product suite. We maintain our primary development centers in Fairfax, Virginia, Sunnyvale, California and Bangalore, India and have additional development teams in Denver, Colorado and Bellevue, Washington. Our research and development expenses, including stock-based compensation, were $40.2 million, $44.5 million and $45.1 million in our fiscal years ended March 31, 2006, 2005 and 2004, respectively. The significant decrease in our research and development expenses in fiscal 2006 was primarily the result of increasing the proportion of our product development staff based in Bangalore, India, which has lower personnel and operating expenses than our product development centers in the United States.

STRATEGIC RELATIONSHIPS

We work closely with several major systems integrators and other strategic partners including Accenture, Atos Origin, BearingPoint, Capgemini, CGI-AMS, Crowe Chizek, CSC, Deloitte, EDS, Global eXchange Services, HP and TCS to support our customers' integration needs and to expand the resources available to implement our software. We invest in education to assist our strategic partners in staying knowledgeable in, and proficient with, our software products and solutions. We believe that our investment in these relationships is important because our strategic partners' promotion of our products as the most appropriate solution for their clients augments our direct sales force.

We also have strategic Original Equipment Manufacturer ("OEM") relationships with enterprise application vendors, including Oracle Corporation and SAP AG, which help us in selling to prospective customers that own or plan to purchase products from these companies in which a license-limited version of our software may be embedded. We believe that this provides us with an incumbency advantage for many of the new business opportunities for which we compete.

We believe that the relationships with our strategic partners resulted in, directly or indirectly, a significant portion of our license revenue during the fiscal year ending March 31, 2006 and in prior fiscal years, and we expect this to continue in future periods.

COMPETITION

The market for our software and services is extremely competitive and subject to rapid change. We believe that we have a compelling offering in the webMethods Fabric product suite, significant expertise in application and trading partner integration, a track record of innovation, and are a recognized leader in our industry. However, we compete with numerous other providers of integration software products. Our competitors include BEA Systems, Inc., IBM, Microsoft Corporation, Oracle Corporation, SAP AG, TIBCO Software, Inc. and a wide range of smaller vendors associated with the capabilities that we offer. We may encounter further competition from other emerging companies. In addition, we may face pricing pressures from our current competitors and new market entrants in the future. We believe that the competitive factors affecting the market for our software and services are numerous and the specific importance of any one of these factors varies significantly for each customer. These competitive factors include product functionality and features; performance and price; ease and cost of product implementation; vendor and product reputation; quality of customer support services; financial strength; customer training and documentation; and quality of professional services offerings. Although we believe that our software and services currently compete favorably with respect to such factors, we may not be able to maintain our competitive position against current and potential competitors.

Some of our current and potential competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater brand recognition and larger installed customer bases than we do. Our present or future competitors may be able to develop software similar to or even superior in functionality to what we offer, some may be able to adapt more quickly than we do to new technologies, evolving industry trends or new customer requirements, or devote greater resources to the marketing, design and development, and sale of their products. Accordingly, it is possible that we may not be able to compete effectively in our markets, which may harm our business and operating results. If we are not successful in developing new software and enhancements to our existing software or in achieving customer acceptance, our gross margins may decline, and our business and operating results may suffer.

INTELLECTUAL PROPERTY AND OTHER PROPRIETARY RIGHTS

Our success is heavily dependent upon the technological and creative skills of our personnel and how successfully we can safeguard their efforts in developing and enhancing our software and related technology through the protection of our intellectual property rights, brand name, and associated goodwill. We depend upon our ability to develop and protect our proprietary technology and intellectual property rights to distinguish our software from our competitors' products. We rely on a combination of confidentiality agreements, confidentiality procedures and contractual provisions, as well as trade secret, copyright, trademark and patent laws, to establish and protect our proprietary rights and accomplish these goals.

For example, we take measures to avoid disclosure of our trade secrets, including, but not limited to, requiring all employees and certain consultants, customers, prospective customers, and others with which we have business relationships to execute confidentiality agreements that prohibit the unauthorized use and disclosure of our trade secrets and other proprietary materials and information. Further, we enter into license agreements with our customers, strategic partners, resellers and distributors that limit the unauthorized access to, use and distribution of our software, documentation and other proprietary information. Our license agreements with our customers, strategic partners, resellers and distributors impose restrictions on the use of our technology, including prohibiting the reverse engineering or de-compiling of our software, impose restrictions on the licensee's ability to utilize the software and provide for specific remedies in the event of a breach of these restrictions. We also restrict access to our source code. While some of our license agreements require us to place the source code for our software in escrow for the benefit of the licensee, these agreements generally provide these licensees with a limited, non-exclusive license to use this code in the event we cease to do business without a successor or there is a bankruptcy proceeding by or against us. Certain agreements may provide that the licensee can use the escrowed source code if we fail to provide the necessary software maintenance and support.

We also seek to protect our technology, software, documentation and other proprietary information under the copyright, trademark and patent laws. We assert copyright in our software, documentation and other works of authorship, and periodically register copyrights with the U.S. Copyright Office in qualifying works of authorship. We assert trademark rights in and to our name, product names, logos and other markings that are designed to permit consumers to identify our goods and services. We routinely file for and have been granted trademark protection from the U.S. Patent and Trademark Office for qualifying marks. We currently hold a trademark registration in the United States for various marks, including the "webMethods," "B2B Integration Server" and "Glue" marks, and a trademark registration in certain other countries and the European Union for the "webMethods" mark. We have two patents issued in the United States and several patent applications pending for technology related to our software. We may file additional patent applications in the United States or other countries in the future.

Despite our efforts to protect our proprietary rights, contractual provisions, licensing restrictions and existing laws and remedies afford us only limited protection. The steps we have taken to protect our proprietary rights and intellectual property may not be adequate to deter misappropriation of our technology, and the protections we have may not prevent our competitors from developing products with functionality or features similar to our software. For more information regarding our proprietary rights, see Item 1A "Risk Factors — If we are unable effectively to protect our intellectual property, we may lose a valuable asset, experience reduced market share, or incur costly litigation to protect our rights" and "Third-party claims that we infringe upon their intellectual property rights may be costly to defend and could damage our business."

CORPORATE INFORMATION

webMethods, Inc. was organized in Delaware in 1996. We completed our initial public offering in February 2000. Our executive offices are located at 3877 Fairfax Ridge Road, South Tower, Fairfax, Virginia 22030, and our main telephone number is (703) 460-2500. We operate in a single segment of software and related services.

AVAILABLE INFORMATION

Our internet address is *www.webMethods.com*. We provide free of charge on the Investor Relations page of our web site access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Information appearing on our website is not incorporated by reference in and is not a part of this report.

EMPLOYEES

As of March 31, 2006, we employed approximately 826 full-time employees. These included approximately 244 in sales and marketing, 221 in professional services and technical support, approximately 234 in research and development and approximately 127 in other administrative areas, including accounting, finance, human resources, facilities and information technology. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense. From time to time, we have employed, and will continue to employ, independent contractors and consultants to support research and development, sales and marketing, and business development. Our employees generally are not represented by a collective bargaining agreement, although employees in certain of our international subsidiaries have claimed membership in trade unions or sought to invoke union representation in certain personnel matters. We have never experienced a strike or similar work stoppage and we consider relations with our employees to be good.

Item 1A. RISK FACTORS

You should consider the following risks and uncertainties when evaluating our statements in this report and elsewhere and prior to making an investment decision as to our securities. We are subject to risks and uncertainties in addition to those described below, which, at the date of this report, we may not be aware of or which we may not consider significant. Each of these factors may adversely affect our business, financial condition, results of operations or the market price of our common stock.

Our quarterly revenue, especially the amount of license revenue we recognize in a quarter and our operating results could fluctuate materially, which could significantly affect the market price of our common stock.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. A significant reason for these fluctuations is variation in the level of our quarterly revenue, especially the amount of license revenue we recognize in a quarter. which is difficult to predict with certainty and which varies depending on a number of factors. Factors that may cause our quarterly operating results to vary substantially in the future include:

- changes in demand for our software products and services;
- the timing and terms of large transactions with customers;
- the spending environment for business integration and optimization solutions;
- competitive pressures;
- fluctuations in the revenue and license revenue of our geographic regions;
- our ability to execute on our business strategy and sales strategies within the timeframes we anticipate;
- the number of our quota-bearing sales representatives, their experience with our solutions, software products and sales processes and their capability to utilize our solution-selling approach;
- the timing and amount of revenue from acquired technologies or businesses;
- the amount and timing of operating expenses and the success of attempts to increase expense efficiency and the timing and amount of non-recurring or non-cash charges;
- delays in the availability of new products or new releases of existing products;
- costs of legal compliance, including compliance with the Sarbanes-Oxley Act of 2002 and regulatory requirements and investigating allegations that may be made or resolving any pending or threatened legal claims; and
- changes that we may make in our business, operations and infrastructure.

We also may experience delays or declines in expected total revenue or license revenue due to patterns in the capital budgeting and purchasing cycles of our current and prospective customers, purchasing practices and requirements of prospective customers, including contract provisions or contingencies they may request, changes in demand for our software and services, changes that we may make in our business or operations, economic uncertainties, geopolitical developments or uncertainties, travel limitations, terrorist acts, actual or threatened epidemics or other major unanticipated events. These periods of slower or no growth may lead to lower total revenue or license revenue or both, which could cause fluctuations in our quarterly operating results. In addition, variations in sales cycles may have an impact on the timing of our recognition of license revenue, which in turn could cause our quarterly total revenue and operating results to fluctuate. To successfully sell our software and services, we generally must educate our potential customers regarding their use and benefits, which can require significant time and resources and result in delays in revenue.

The market price of our common stock fluctuates as a result of factors other than our quarterly total revenue, license revenue and operating results, including actions taken by or performance of our competitors, estimates and recommendations of securities analysts, industry volatility and changes to accounting rules.

The market price for our common stock has experienced significant fluctuation over the years and may continue to do so. From our initial public offering in February 2000 until June 12, 2006, the closing price of our stock on the Nasdaq National Market has ranged from a high of $308.06 to a low of $3.96. In addition to our quarterly total revenue, license revenue or operating results, this volatility in the market price for our common stock may be affected by a number of other factors, including:

- the overall volatility of the stock market, particularly the stock prices of software and technology companies;
- fluctuation in the levels of total revenue, license revenue and operating results of competitors;
- changes in securities analysts' estimates, recommendations or expectations with respect to our business, common stock or our industry;
- rapid developments, consolidation and technology changes within our industry; and
- changes to accounting rules.

If any of these market or industry-based factors has a significant negative impact on the market price for our common stock, investors could lose all or part of their investment, regardless of our actual operating performance.

Our markets are highly competitive, and we may not compete effectively.

The markets for business integration solutions, Service-Oriented Architecture capabilities, Business Activity Monitoring and Business Process Management solutions and Composite Application Framework capabilities are rapidly changing and intensely competitive. There are a variety of methods available to integrate software applications, monitor and optimize business processes and workflows, provide SOA, enable Web services and provide customers the capabilities to run, manage and optimize their enterprise. We expect that competition will remain intense as the number of entrants and new technologies increases. We do not know if our markets will widely adopt and deploy our SOA technology, our webMethods Fabric product suite or other solutions we offer or have announced. If our technology, software and solutions are not widely adopted by our markets or if we are not able to compete effectively against current or future competitors, our business, operating results and financial condition may be harmed.

Our current and potential competitors include, among others:

- large software vendors;
- companies that develop their own integration software or Web services technology;
- business integration software vendors;
- electronic data interchange vendors;
- vendors of proprietary enterprise application integration; and
- application server vendors.

We also face competition from providers of various technologies to enable Web services. Further, we face competition for some aspects of our software and service offerings from major system integrators, both independently and in conjunction with corporate in-house information technology departments, which have traditionally been the prevalent resource for application integration. In addition, application software vendors with whom we have or had strategic relationships sometimes offer competitive solutions or may become or are competitors. Some of our competitors or potential competitors may have more experience developing technologies or solutions competitive with ours, larger technical staffs, larger customer bases, more established distribution channels, greater brand recognition and greater financial, marketing and other resources than we do. Our competitors may be able to develop products and services that are superior to our solutions, that achieve greater customer acceptance or that have significantly improved functionality or performance as compared to our existing solutions and future software and services. In addition, negotiating and maintaining favorable customer and strategic relationships is critical to our business. Our competitors may be able to negotiate strategic relationships on more favorable terms than we are able to negotiate or may preclude us from entering into or continuing strategic relationships. Many of our competitors may also have well-established relationships with our existing and prospective customers. Increased competition may result in reduced margins, loss of sales, decreased market share or longer sales cycles or sales processes involving more extensive demonstrations of product capabilities, which in turn could harm our business, operating results and financial condition.

Economic conditions could adversely affect our revenue growth and cause us not to achieve our forecasts of license revenue and total revenue.

Our ability to achieve revenue growth and profitability of our business depends on the overall demand for business integration and optimization software and services. Our business depends on overall economic conditions, the economic and business conditions in our target markets and the spending environment for information technology projects, and specifically for business integration and optimization solutions, in those markets. A weakening of the economy in one or more of our geographic regions, unanticipated major events and economic uncertainties may make more challenging the spending environment for our software and services, reduce capital spending on information technology projects by our customers and prospective customers, result in longer sales cycles for our software and services or cause customers or prospective customers to be more cautious in undertaking larger license transactions. Those situations may cause a decrease in our license revenue and total revenue. A decrease in demand for our software and services caused, in part, by an actual or anticipated weakening of the economy, domestically or internationally, may result in a decrease in our revenue and growth rates.

Before the current fiscal year, we had a history of operating losses, and our failure to sustain profitability could impact our prospects of achieving our growth targets and have a material adverse effect on the market price of our common stock.

During much of our history, we have sustained losses from operations. For a number of reasons described in other factors listed here, we may not be able to achieve our anticipated levels of total revenue and license revenue or to control our operating expenses, which could prevent us from achieving our forecasts of operating results, including sustaining profitability. Any failure on our part to remain profitable could have a material adverse effect on the market price of our common stock. Further, as discussed below, the expensing of stock options in the future is expected to add significant option compensation expense that could significantly impair or delay our ability to maintain profitability. If we do not generate sufficient revenue to achieve and maintain income from operations, our growth could be limited unless we are willing to incur operating losses that may be substantial and are able to fund those operating losses from our available assets or, if necessary, from the sale of additional capital through public or private equity or debt financings.

Treating stock options and employee stock purchase plan participation as a compensation expense could significantly impair our ability to sustain profitability on a GAAP basis, and may have an adverse impact on our ability to attract and retain key personnel.

The Financial Accounting Standards Board has adopted SFAS 123R, "Share-Based Payment," which will require us to measure compensation cost for all share-based payments (such as employee stock options and participation in our employee stock purchase plan) and record such compensation costs in our

1404536-17

consolidated financial statements beginning in our three month period ending June 30, 2006. We grant stock options to our employees, officers and directors and we administer an employee stock purchase plan ("ESPP"). Information on our stock option plan and ESPP, including the shares reserved for issuance under those plans, the terms of options granted, the terms of ESPP participation, and the shares subject to outstanding stock options, is included in Note 16 of the Notes to Consolidated Financial Statements of webMethods, Inc. included in this report. We are currently evaluating the impact of the adoption of SFAS 123R on our results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards. However, we currently believe that the adoption of SFAS 123R will have a material adverse effect on our results of operations by increasing our operating expenses and reducing our net income and earnings per share, which could significantly impair our ability to sustain profitability. That impact could have a material adverse effect on the market price of our common stock. In addition, to the extent SFAS 123R makes it more difficult or costly to issue stock option grants to our executive officers and employees, we may be forced to alter our stock-based compensation plans in ways that reduce potential benefits to our employees and impede our ability to attract, retain and motivate executive officers and key personnel, which could adversely affect our business.

Our international operations expose us to foreign currency gains and losses.

Our operating results are subject to fluctuations in foreign currency exchange rates. We have not engaged in foreign currency hedging activities to mitigate a portion of these risks. Fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business could adversely affect our operating results, if we continue to not engage in hedging activities.

If we fail accurately to forecast our future total revenue, license revenue or operating results, we may not satisfy the expectations of investors or securities analysts.

We forecast our future total revenue and license revenue and operating results based upon information from our sales organization, finance and accounting department and other groups within our organization. The information on which our forecasts are based reflect expectations of future performance and beliefs regarding continuation of trends and anticipated future achievements, which are uncertain and are subject to a number of risks and uncertainties that we attempt to articulate for investors and securities analysts. We may fail accurately to forecast our future total revenue, license revenue or operating results due to a number of factors, including changes in customer demand, economic conditions, the timing and terms of large transactions with customers, competitive pressures, fluctuations in the total revenue and license revenue of our geographic regions, our ability to execute on our business strategy and sales strategies, changes in the number of quota bearing sales representatives and their experience with our solutions, software products and sales processes, the timing and amount of revenue from acquired technologies or businesses, delays in the availability of new products or new releases of existing products, changes that we may make in our business, operations and infrastructure, seasonal factors or major, unanticipated events.

In addition, we generally close a substantial number of license transactions in the last month of each quarter, which makes it difficult to predict with certainty the level of license revenue we will have in any quarter until near to, or after, its conclusion. Our operating expenses, which include sales and marketing, research and development and general and administrative expenses, are based on our expectations of future revenue and are relatively fixed in the short term. If total revenue or license revenue falls below our expectations in a quarter and we are not able to quickly reduce our spending in response, our operating results for that quarter could be significantly below the guidance we provide publicly or expectations of investors or securities analysts. As a result, the market price of our common stock may fall significantly.

If we fail to attract and retain key executive officers and other key personnel who are essential to our business, our ability to execute effectively on our business strategy or our results of operations or financial condition may be adversely affected.

Our success depends upon the continued service of key employees who are essential to our business, including our executive officers. None of our current executive officers or key employees is bound by an

1404435068

employment agreement for any specific term. The loss of any key executive officers or key employees could potentially impede our ability to execute effectively on our business strategy and could also potentially harm our operating results or financial condition. Our future success will also depend in large part on our ability to attract and retain qualified executives and experienced technical, sales, professional services, marketing and management personnel.

We may incur significant expenses in hiring new employees and in reducing our headcount in response to changing market conditions.

Our success in expanding the scope of our operations is dependent on successfully managing our workforce. As we grow, we must invest significantly in building our sales, marketing and product development groups. Competition for these people in the software industries is intense, and we may not be able to successfully recruit, train or retain qualified personnel. In addition, we must successfully integrate new employees into our operations and generate sufficient revenues to justify the costs associated with these employees. If we fail to successfully integrate employees or to generate the revenue necessary to offset employee-related expenses, we may be forced to reduce our headcount, which would force us to incur significant expenses and would adversely affect our business and operating results.

If we are unable to adapt and enhance our software products to meet rapid technological changes, to provide desired product interfaces or to conform to new industry standards, we could lose strategic partners, customers and future revenue opportunities.

We expect that the rapid evolution of business integration and optimization software and related standards and technologies and protocols, as well as general technology trends such as changes in or introductions of operating systems or enterprise applications, will require us to adapt our software and solutions to remain competitive. Our software and solutions could become obsolete, unmarketable or less desirable to prospective customers if we are unable to adapt to new technologies or standards or if we fail to adapt our products to new platforms or provide desired product interfaces. If our software ceases to demonstrate technology leadership, conform to industry standards, adapt to new platforms or develop and maintain adapters or interfaces to popular products, we may have to increase our product development costs and divert our product development resources to address these issues. In addition, because our customers, prospective customers and certain strategic partners depend on our adapting and enhancing our software products to meet technological changes and to conform to new industry standards, any failure or perceived failure on our part to do so could result in potential losses of customers, prospective customers, strategic partners and future revenue opportunities.

We may face damage to the reputation of our software and a loss of revenue if our software products fail to perform as intended or contain significant defects.

Our software products are complex, and significant defects may be found following introduction of new software or enhancements to existing software or in product implementations in varied information technology environments. Internal quality assurance testing and customer testing may reveal product performance issues or desirable feature enhancements that could lead us to reallocate product development resources or postpone the release of new versions of our software. The reallocation of resources or any postponement could cause delays in the development and release of future enhancements to our currently available software, require significant additional professional services work to address operational issues, damage the reputation of our software in the marketplace and result in potential loss of revenue. Although we attempt to resolve all errors that we believe would be considered serious by our partners and customers, our software is not error-free. Undetected errors or performance problems may be discovered in the future, and known errors that we consider minor may be considered serious by our partners and customers. This could result in lost revenue, delays in customer deployment or legal claims and would be detrimental to our reputation. If our software experiences performance problems or ceases to demonstrate technology leadership, we may have to increase our product development costs and divert our product development resources to address the problems.

Our business may be adversely impacted if we do not provide professional services to implement our solutions or if we are unable to establish and maintain relationships with third-party implementation providers.

Customers that license our software typically engage our professional services staff or third-party consultants to assist with product implementation, training and other professional consulting services. We believe that many of our software sales depend, in part, on our ability to provide our customers with these services and to attract and educate third-party consultants to provide similar services. New professional services personnel and service providers require training and education and take time and significant resources to reach full productivity. Competition for qualified personnel and service providers is intense within our industry. Our business may be harmed if we are unable to provide professional services to our customers to effectively implement our solutions of if we are unable to establish and maintain relationships with third-party implementation providers.

We rely on strategic alliances with major systems integrators and other similar relationships to promote and implement our software.

We have established strategic relationships with system integrators and others. These strategic partners provide us with important sales and marketing opportunities, create opportunities to license our solutions, and increase our implementation and professional services delivery capabilities. We also have similar relationships with resellers, distributors and other technology leaders. During our fiscal year 2006, our systems integrator partners directly or indirectly influenced a significant portion of our license revenue, and we expect that trend to continue in future periods. If our relationships with our strategic partners diminish or terminate or if we fail to work effectively with our partners or to grow our base of strategic partners, resellers and distributors, we might lose important opportunities, including sales and marketing opportunities, our business may suffer and our financial results could be adversely impacted. Our strategic partners often are not required to market or promote our software and generally are not restricted from working with vendors of competing software or solutions or offering their own solutions providing similar capabilities. Accordingly, our success will depend on their willingness and ability to devote sufficient resources and efforts to marketing our software and solutions rather than the products of competitors or that they offer themselves. If these relationships are not successful or if they terminate, our revenue and operating results could be materially adversely affected, our ability to increase our penetration of our markets could be impaired, we may have to devote substantially more resources to the distribution, sales and marketing, implementation and support of our software than we would otherwise, and our efforts may not be as effective as those of our competitors, which could harm our business, our operating results and materially impact the market price of our common stock.

Our business strategy contemplates possible future acquisitions of companies or technologies that may result in disruptions to our business, integration difficulties, increased debt or contingent liabilities, dilution to our stockholders or other adverse effects on future financial results.

We may make investments in, or acquisitions of, technology, products or companies in the future to maintain or improve our competitive position. We may not be able to identify future suitable acquisition or investment candidates, and even if we identify suitable candidates, may not be able to make these acquisitions or investments on commercially acceptable terms, or at all. With respect to potential future acquisitions, we may not be able to realize future benefits we expected to achieve at the time of entering into the transaction, or our recognition of those benefits may be delayed. In such acquisitions, we will likely face many or all of the risks inherent in integrating corporate cultures, product lines, operations and businesses. We will be required to train our sales, professional services and customer support staff with respect to acquired software products, which can detract from achieving our goals in the current period, and we may be required to modify priorities of our product development, customer support, systems engineering and sales organizations. Further, we may have to incur debt or issue equity securities to pay for any future acquisitions or investments, the issuance of which could be dilutive to our stockholders.

We may not have sufficient resources available to us in the future to take advantage of certain opportunities, potentially harming our operating results and financial condition.

In the future, we may not have sufficient resources available to us to take advantage of growth, acquisition, product development or marketing opportunities. We may need to raise additional funds in the future through public or private debt or equity financings in order to: take advantage of opportunities, including more rapid international expansion or acquisitions of complementary businesses or technologies; develop new software or services; or respond to competitive pressures. Additional financing needed by us in the future may not be available on terms favorable to us, if at all. If adequate funds are not available, not available on a timely basis, or are not available on acceptable terms, we may not be able to take advantage of opportunities, develop new software or services or otherwise respond to unanticipated competitive pressures.

If we are unable effectively to protect our intellectual property, we may lose a valuable asset, experience reduced market share or incur costly litigation to protect our rights.

Our success depends, in part, upon our proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, trade secret, trademark and patent laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology. Despite our efforts to protect our proprietary rights, contractual provisions, licensing restrictions and existing laws and remedies afford us only limited protection. The steps we have taken to protect our proprietary rights and intellectual property may not be adequate to deter misappropriation of our technology. Unauthorized parties may copy aspects of our software and obtain and use information that we regard as proprietary. Competitors may use such information to enhance their own products or to create similar technology which directly competes with our products, potentially diminishing our market share. In addition, the protections that we have may not prevent our competitors from developing products with functionality or features similar to our software.

It is possible that the copyrights, trademarks or patents held by us could be challenged and invalidated. For example, we cannot be certain that the two patents we hold, those that we have applied for, if issued, or our potential future patents will not be successfully challenged. Further, we cannot be certain that we will be able to develop proprietary products or technologies that are patentable, that any patent issued to us will provide us with any competitive advantage or that the patents of others will not seriously limit or harm our ability to do business. Other parties may breach confidentiality agreements or other protective contracts we have entered into, and we may not be able to enforce our rights in the event of these breaches. We may not be able to detect unauthorized use of our proprietary information or take appropriate steps to enforce our intellectual property rights effectively. Policing the unauthorized use of our products and other proprietary rights is difficult and expensive, particularly given the global nature and reach of the Internet. Effective protection of our intellectual property rights may be limited in certain countries because the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. A small number of our agreements with customers and system integrators contain provisions regarding the rights of third parties to obtain the source code for our software, which may limit our ability to protect our intellectual property rights in the future. Litigation to enforce our intellectual property rights or protect our trade secrets could result in substantial costs, may not result in timely relief and may not be successful. Any inability to protect our intellectual property rights could have a material adverse effect on our business, operating results and financial condition.

In addition, we license technology from third parties that is incorporated into our software, and we bundle technology from third parties with our software. We also incorporate into our software certain "open source" software code or software tools, the use of which in commercial software products, such as ours, may be prohibited or restricted now or in the future. Any significant interruption in the supply or support of any technology we license from third parties, or our inability to continue to use "open source" software in our products, could adversely affect our business, unless and until we can replace the functionality provided by the licensed technology or "open source" software. Our use of licensed technology or "open source" software could cause our products to infringe the intellectual property rights of others, causing costly litigation and the loss of significant rights.

Third-party claims that we infringe upon their intellectual property rights may be costly to defend and could damage our business.

We cannot be certain that our software products and services do not infringe issued patents, copyrights, trademarks or other intellectual property rights of third parties. Litigation regarding intellectual property rights is common in the software industry, and we have been subject to, and may be increasingly subject to, legal proceedings and claims from time to time, including claims of alleged infringement of intellectual property rights of third parties by us or our licensees concerning their use of our software products, technologies and services. Although we believe that our intellectual property rights are sufficient to allow us to market our software without incurring liability to third parties, third parties have brought, and may bring in the future, claims of infringement against us or our licensees. Because our software products are integrated with our customers' networks and business processes, as well as other software applications, third parties may bring claims of infringement against us, as well as our customers and other software suppliers, if the cause of the alleged infringement cannot easily be determined. We have previously incurred expenses related to, and may agree in the future to indemnify certain of our customers against, claims that our software products or our customers' software products infringe upon the intellectual property rights of others. Furthermore, former employers of our current and future employees may assert that our employees have improperly disclosed confidential or proprietary information to us. These claims may be with or without merit.

Claims of alleged infringement, regardless of merit, may have a material adverse effect on our business in a number of ways. Claims may discourage potential customers from doing business with us on acceptable terms, if at all. Litigation to defend against claims of infringement or contests of validity may be very time-consuming and may result in substantial costs and diversion of resources, including our management's attention to our business. In addition, in the event of a claim of infringement, we, as well as our customers, may be required to obtain one or more licenses from third parties, which may not be available on acceptable terms, if at all. Furthermore, a party making such a claim could secure a judgment that requires us to pay substantial damages, and also include an injunction or other court order that could prevent us from selling some or all of our software products or require that we re-engineer some or all of our software products. Certain customers have been subject to such claims and litigation in the past, and we or other customers may in the future be subject to additional claims and litigation. We have settled two such claims and may in the future settle any other such claims with which we may be involved, regardless of merit, to avoid the cost and uncertainty of continued litigation. Defense of any lawsuit or failure to obtain any such required licenses could significantly harm our business, operating results and financial condition and the price of our common stock. Although we carry general liability insurance, our current insurance coverage may not apply to, and likely would not protect us from, all liability that may be imposed under these types of claims. Our current insurance programs do not cover claims of patent infringement.

The use of open source software in our products may expose us to additional risks.

"Open source" software is software that is covered by a license agreement which permits the user to liberally copy, modify and distribute the software for free. Certain open source software is licensed pursuant to license agreements that require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. This effectively renders what was previously proprietary software open source software. Many features we may wish to add to our products in the future may be available as open source software and our development team may wish to make use of this software to reduce development costs and speed up the development process. While we monitor the use of all open source software and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product, such use could inadvertently occur. Additionally, if a third party has incorporated certain types of open

1404436062

source software into its software, has not disclosed the presence of such open source software and we embed that third party software into one or more of our products, we could be required to disclose the source code to our product. This could have a material adverse effect on our business.

The Sarbanes-Oxley Act of 2002 requires that we undertake periodic evaluations of our internal control over financial reporting, and we have identified a material weakness that could harm our reputation and impact the market price of our common stock.

The Sarbanes-Oxley Act of 2002 requires that our management establish and maintain internal control over financial reporting and annually assess the effectiveness of our internal control over financial reporting and report the results of such assessment. Our management assessed the effectiveness of our internal control over financial reporting at March 31, 2006 and concluded, based upon their assessment, that a material weakness existed and, accordingly, that our internal control over financial reporting was not effective regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. As a result of management's conclusion that our internal control over financial reporting was not effective at March 31, 2006, due to a material weakness, we must change our internal control over financial reporting to remediate such material weakness. In this situation, investors and stock analysts may lose confidence in the reliability of our financial statements, we may not be successful in effecting the necessary remediation and we may be subject to investigation or sanctions by regulatory authorities. We cannot predict the outcome of our assessments in future periods. We also expect that we will continue to identify areas of internal control over financial reporting that require improvement, and that we will continue to enhance processes and controls to address those issues, reduce the number of critical controls and expand the global use of critical controls, which will involve additional expense and diversion of management's time and may impact our results of operations.

Our disclosure controls and procedures and our internal control over financial reporting may not be effective to detect all errors or to detect and deter wrongdoing, fraud or improper activities in all instances.

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors or detect or deter all fraud. In designing our control systems, management recognizes that any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further the design of a control system must reflect the necessity of considering the cost-benefit relationship of possible controls and procedures. Because of inherent limitations in any control system, no evaluation of controls can provide absolute assurance that all control issues and instances of wrongdoing, if any, that may affect our operations have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, that breakdowns can occur because of simple error or mistake and that controls may be circumvented by individual acts by some person, by collusion of two or more people or by management's override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of a potential future event, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in cost-effective control systems, misstatements due to error or wrongdoing may occur and not be detected. Over time, it is also possible that controls may become inadequate because of changes in conditions that could not be, or were not, anticipated at inception or review of the control systems. Any breakdown in our control systems, whether or not foreseeable by management, could cause investors to lose confidence in the accuracy of our financial reporting and may have an adverse impact on the market price for our common stock.

Our financial statements may in the future be impacted by improper activities of our personnel.

Our financial statements can be adversely impacted by our employees' improper activities and unauthorized actions and their concealment of their activities. For instance, revenue recognition depends upon the terms of our agreements with our customers, resellers and distributors, among other things. Our personnel may act outside of their authority, such as by negotiating additional terms or modifying terms without the knowledge of management that could impact our ability to recognize revenue in a timely manner, and they could commit us to obligations or arrangements that may have a serious financial impact to our results of operations or financial condition. In addition, depending upon when we learn of any such improper activities or unauthorized actions, we may have to restate our financial statements for a previously reported period, which could have a material adverse effect on our business, operating results and financial condition and on the market price of our common stock. We have implemented steps to prevent such conduct, but we cannot be certain that these new or additional controls will be effective in deterring all improper conduct by our personnel.

Costs of legal investigations and regulatory compliance matters may increase our operating expenses and impact our operating results.

Investigations of allegations concerning activities of personnel and investigation and resolution of legal claims have resulted in significant expense and management time and attention, and we may incur additional expense relating to the ongoing informal investigation by the Securities and Exchange Commission with respect to improper activities of personnel at our Japanese subsidiary. Further investigations or any future legal compliance or regulatory compliance matters could significantly increase expense and demands on management time and attention In addition, we have incurred and will continue to incur significant additional expense related to our efforts to comply with the rules and regulations enacted under the Sarbanes-Oxley Act of 2002.

Our international sales efforts could subject us to greater or unique uncertainties and additional risk.

We have significant international sales efforts. Our international operations require a significant amount of attention from our management and substantial financial resources. If we are unable to manage our international operations successfully and in a timely manner, our business and operating results could be harmed. In addition, doing business internationally involves additional risks, particularly:

- the difficulties and costs of staffing and managing foreign operations;
- the difficulty of ensuring adherence to our revenue recognition and other policies;
- the difficulty of monitoring and enforcing internal controls and disclosure controls;
- unexpected changes in regulatory requirements, business practices, taxes, trade laws and tariffs;
- differing intellectual property rights; differing labor regulations; and
- changes in a specific country's or region's political or economic conditions.

We currently do not engage in any currency hedging transactions. Our foreign sales generally are invoiced in the local currency, and, as we expand our international operations or if there is continued volatility in exchange rates, our exposure to gains and losses in foreign currency transactions may increase when we determine that foreign operations are expected to repay intercompany debt in the foreseeable future. Moreover, the costs of doing business abroad may increase as a result of adverse exchange rate fluctuations. For example, if the United States dollar declines in value relative to a local currency and we are funding operations in that country from our U.S. operations, we could be required to pay more for salaries, commissions, local operations and marketing expenses, each of which is paid in local currency. In addition, exchange rate fluctuations, currency devaluations or economic crises may reduce the ability of our prospective customers to purchase our software and services.

Because our software could interfere with the operations of our strategic partners' and customers' other network and software applications, we may be subject to potential product liability and warranty claims by these strategic partners and customers.

Our software enables customers' and certain strategic partners' software applications to provide Web services, or to integrate with networks and software applications, and is often used for mission critical functions or applications. Errors, defects or other performance problems in our software or failure to provide technical support could result in financial or other damages to our strategic partners and customers. Strategic partners and customers could seek damages for losses from us. In addition, the failure of our software and solutions to perform to strategic partners' and customers' expectations could give rise to warranty claims. Although our license agreements typically contain provisions designed to limit our exposure to potential product liability claims, existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. Although we have not experienced any product liability claims to date, sale and support of our software entail the risk of such claims. The use of our software to enable strategic partners' and customers' software applications to provide Web services, and the integration of our software with our strategic partners' and customers' networks and software applications, increase the risk that a partner or customer may bring a lawsuit against several suppliers if an integrated computer system fails and the cause of the failure cannot easily be determined. Even if our software is not at fault, a product liability claim brought against us, even if not successful, could be time consuming and costly to defend and could harm our reputation. In addition, although we carry general liability insurance, our current insurance coverage would likely be insufficient to protect us from all liability that may be imposed under these types of claims.

Some provisions of the Delaware General Corporation Law, our certificate of incorporation and our bylaws, as well as our stockholder rights plan, may deter potential acquisition bids, discourage changes in our management or Board of Directors and have anti-takeover effects.

The certificate of incorporation, as amended, of webMethods and our bylaws contain certain provisions, as does the Delaware General Corporation Law, which may discourage, delay or prevent a change of control of webMethods or a change in our management or Board of Directors, including through a proxy contest. In addition, our Board of Directors in 2001 adopted a rights plan and declared a dividend distribution of one right for each outstanding share of our common stock. Each right, when exercisable, entitles the registered holder to purchase certain securities at a specified purchase price, subject to adjustment. The rights plan may have the anti-takeover effect of causing substantial dilution to a person or group that attempts to acquire webMethods on terms not approved by our Board of Directors. The existence of the rights plan and the other provisions of the Delaware General Corporation Law, our certificate of incorporation and our bylaws could limit the price that certain investors might be willing to pay in the future for shares of our common stock, could discourage, delay or prevent a merger or acquisition of webMethods that stockholders may consider favorable and could make it more difficult for a third party to acquire us without the support of our Board of Directors, even if doing so would be beneficial to our stockholders.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

Our principal administrative, sales, marketing and research and development facility is located in Fairfax, Virginia, and consists of approximately 106,000 square feet of office space held under a lease that expires in March 2016. We maintain offices for sales and research and development in Sunnyvale, California, Denver, Colorado and Bellevue, Washington and a development center in Bangalore, India. We also maintain offices for sales, professional services and other personnel in the United States in California, Colorado, Georgia, Illinois, Indiana, Massachusetts, Michigan, Minnesota, New York, New Jersey, North Carolina, Ohio, Pennsylvania and Texas. We maintain offices outside the United States for sales, professional services and other personnel in Australia, Belgium, Canada, Hong Kong, France, Germany, India, Italy, Japan, Malaysia, the Netherlands, People's Republic of China, Singapore, South Korea, Spain, Sweden, Switzerland and the United Kingdom.

We provide customer technical support from our facilities in Virginia and California in the United States and in Australia, India, Japan, Malaysia and the Netherlands. We regularly evaluate the suitability and adequacy of our existing facilities and the availability of space for facilities in new locations, and we believe that suitable space for new, replacement or expanded facilities, as needed, generally will be available on commercially reasonable terms.

Item 3. LEGAL PROCEEDINGS

A purported class action lawsuit was filed in the U.S. District Court for the Southern District of New York in 2001 that named webMethods, several of our executive officers at the time of our initial public offering (IPO) and the managing underwriters of our initial public offering as defendants. This action made various claims, including that alleged actions by underwriters of our IPO were not disclosed in the registration statement and final prospectus for our IPO or disclosed to the public after our IPO, and sought unspecified damages on behalf of a purported class of purchasers of our common stock between February 10, 2000 and December 6, 2000. This action was consolidated with similar actions against more than 300 companies as part of In Re Initial Public Offering Securities Litigation (SDNY). Claims against our executive officer defendants have been dismissed without prejudice. We have considered and agreed with representatives of the plaintiffs in the consolidated proceeding to enter into a proposed settlement, which was amended in March 2005 and preliminarily approved by the court in late August 2005. A fairness hearing was held on April 24, 2006, and a motion for final approval of the settlement is currently under submission before the Court. Under the proposed settlement, the plaintiffs would dismiss and release their claims against us in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in the consolidated action and assignment or surrender to the plaintiffs by the settling issuers of certain claims that may be held against the underwriter defendants, plus reasonable cooperation with the plaintiffs with respect to their claims against the underwriter defendants. We believe that any material liability on behalf of webMethods that may accrue under the proposed settlement would be covered by its insurance policies.

From time to time, we are involved in other disputes and litigation in the normal course of business.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

webMethods common stock is publicly traded on the Nasdaq National Market under the symbol "WEBM". The high and low sales prices of our common stock as reported by the Nasdaq National Market during the last two fiscal years are shown below:

	High	Low
Year ended March 31, 2005:		
First Quarter (ended June 30, 2004)	$ 10.80	$ 7.85
Second Quarter (ended September 30, 2004)	8.57	3.94
Third Quarter (ended December 31, 2004)	7.50	5.25
Fourth Quarter (ended March 31, 2005)	7.30	5.25

	High	Low
Year ended March 31, 2006:		
First Quarter (ended June 30, 2005)	$ 5.73	$ 4.50
Second Quarter (ended September 30, 2005)	7.32	5.33
Third Quarter (ended December 31, 2005)	8.17	6.21
Fourth Quarter (ended March 31, 2006)	8.50	7.26

As of June 12, 2006, there were approximately 325 holders of record of our common stock. The number of holders of record of our common stock does not reflect the number of beneficial holders whose shares are held by depositories, brokers or other nominees. As of June 12, 2006, the closing price of our common stock was $9.30.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain earnings, if any, to support our growth strategy and do not anticipate paying cash dividends in the foreseeable future.

Item 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with the Consolidated Financial Statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this report. The historical consolidated statement of operations data for the years ended March 31, 2006, 2005 and 2004 and the historical consolidated balance sheet data as of March 31, 2006 and 2005 are derived from our consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, and are included elsewhere in this report. The historical consolidated statement of operations data for the years ended March 31, 2003 and 2002 and the historical consolidated balance sheet data as of March 31, 2004, 2003 and 2002 are derived from our audited consolidated financial statements not contained in this report. Historical results are not necessarily indicative of future results.

	Year Ended March 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Consolidated Statements of Operations Data:					
Revenue:					
License	$ 87,449	$ 86,800	$ 92,740	$117,066	$121,803
Professional services	47,183	49,218	43,634	33,378	35,800
Maintenance	74,186	64,583	53,167	46,310	38,393
Total revenue	208,818	200,601	189,541	196,754	195,996
Cost of revenue:					
Amortization of intangibles	2,397	2,397	1,199	—	—
License	1,002	1,252	2,211	1,937	2,335
Professional services	42,688	43,989	42,308	31,911	34,491
Maintenance	12,774	12,965	11,205	10,277	8,069
Total cost of revenue	58,861	60,603	56,923	44,125	44,895
Gross profit	149,957	139,998	132,618	152,629	151,101
Operating expenses:					
Sales and marketing costs	74,084	84,313	94,433	96,719	109,242
Research and development costs	40,197	44,518	45,060	47,538	62,160
General and administrative costs	23,812	25,042	17,880	17,878	19,805
Restructuring and related charges	411	5,849	3,920	2,155	7,243
Amortization of goodwill and intangibles	—	—	—	—	38,697
In-process research and development	—	—	4,284	—	—
Settlement of intellectual property matter	—	—	2,250	—	—
Total operating expenses	138,504	159,722	167,827	164,290	237,147
Operating income (loss)	11,453	(19,724)	(35,209)	(11,661)	(86,046)
Interest income	4,496	2,487	2,851	4,732	9,116
Interest expense	(82)	(98)	(205)	(674)	(553)
Other income (expense)	807	(124)	(461)	18	(26)
Impairment of equity investments in private companies	—	(1,057)	—	(1,000)	(5,200)
Net income (loss) before income taxes	16,674	(18,516)	(33,024)	(8,585)	(82,709)
Provision for (benefit from) income taxes	(1,348)	235	—	—	—
Net income (loss)	18,022	(18,751)	(33,024)	(8,585)	(82,709)
Basic net income (loss) per share	$ 0.34	$ (0.35)	$ (0.63)	$ (0.17)	$ (1.67)
Fully diluted net income (loss) per share	$ 0.33	$ (0.35)	$ (0.63)	$ (0.17)	$ (1.67)
Shares used in computing per share amount					
Basic	53,779	53,103	52,137	51,282	49,493
Fully diluted	55,045	53,103	52,137	51,282	49,493

	March 31,				
	2006	2005	2004	2003	2002
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term and long-term marketable securities available for sale	$162,314	$150,054	$155,947	$201,626	$211,842
Working capital	143,270	108,340	93,692	149,424	178,909
Total assets	302,811	275,344	283,650	304,436	324,063
Long-term liabilities	5,723	9,884	7,439	7,267	21,653
Total stockholders' equity	206,778	184,532	197,137	218,559	215,544

AJS000224

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Management's discussion and analysis of financial condition, changes in financial condition and results of operations is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of webMethods, Inc.'s financial condition and results of operations. This item of our Annual Report on Form 10-K is organized as follows:

- *Overview.* This section provides a general description of our business, the performance indicators that management uses in assessing our financial condition and results of operations, and anticipated trends that management expects to affect our financial condition and results of operations.
- *Results of operations.* This section provides an analysis of our results of operations for the three years ended March 31, 2006.
- *Liquidity and Capital Resources.* This section provides an analysis of our cash flows for the year ended March 31, 2006, and a discussion of our capital requirements and the resources available to us to meet those requirements.
- *Critical accounting policies.* This section discusses accounting policies that are considered important to our financial condition and results of operations, require significant judgment and require estimates on the part of management in application. Our significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 2 to the accompanying consolidated financial statements.

OVERVIEW

We are a leading provider of business integration and optimization software. Our products and solutions enable our customers to improve the performance of their organizations by implementing and accelerating business process improvements. Our primary offering is webMethods Fabric, a unified business integration and optimization product suite.

Fiscal 2006 Review

Management uses quantitative performance indicators to assess our financial condition and operating results. These performance indicators include total revenues, license revenues, maintenance revenues, services revenues, operating margin and earnings per share. Each provides a measurement of the performance of our business and how well we are executing our operating plan.

Our total revenues for the year ended March 31, 2006 were approximately $208.8 million. This represents an increase of approximately 4% over the prior fiscal year.

Our license revenues for the year ended March 31, 2006 were $87.4 million, or 42%, of our total revenues. This represents an increase of 1% over the prior fiscal year. We receive license revenues from the sale of licenses of our software products worldwide in various industries. We sell licenses of our products through a direct sales force, resellers or distributors, and through alliances with strategic software vendor partners and major system integrators.

Our maintenance revenues for the year ended March 31, 2006 were $74.2 million, or 36%, of our total revenues. This represents an increase of 15% over the prior fiscal year. We receive maintenance revenues from the sale of a variety of support and maintenance plans to our customers. First-year maintenance is usually sold with the related software license and is typically renewed on an annual basis. Maintenance revenue is recognized ratably over the term of the maintenance contract, which is typically twelve months.

Our professional services revenues for the year ended March 31, 2006 were $47.2 million, or 23%, of our total revenues. This represents a 4% decline over the prior fiscal year. We receive professional services revenues from consulting and training services provided to our customers. These services primarily consist of implementation services related to the installation of our software products and generally do not include customization or development of our software products. These revenues are typically recognized as the services are performed, usually on a time and materials basis.

Our operating margin for the year ended March 31, 2006 was 5%, compared to negative 10% for the prior fiscal year. Operating margin is the percentage of operating income (loss) to total revenue.

For the year ended March 31, 2006, our earnings per share on a fully-diluted basis was $0.33, compared to a loss per share of $0.35 for the prior fiscal year.

The significant improvement in our financial results for the year ended March 31, 2006 is primarily due to a $21.2 million decrease in operating expenses, an $8.2 million increase in total revenue, a $4.0 million increase in interest income and other non-operating income, net, and a $1.3 million income tax benefit in fiscal year 2006 as compared to a $235,000 provision for taxes in fiscal year 2005.

Further analyses of our performance indicators can be found in "Results of Operations."

Fiscal 2007 Outlook

Our focus in fiscal year 2007 is building on our success in 2006 by executing in key areas, including continuing to innovate on our integrated software platform, delivering compelling value propositions to customers, responding effectively to customer needs, and continuing to focus on product excellence, business efficiency, and accountability across the company.

The key opportunities in our markets for fiscal year 2007 include:

- The expected increase in adoption of Service-Oriented Architecture, or SOA, by our existing and prospective customers; and
- The expected, continued increase in demand from these organizations for products and solutions that improve operating performance by improving the processes that run their businesses.

We believe that with webMethods Fabric we are well-positioned to take advantage of these market opportunities.

Our license revenues historically have fluctuated quarterly and have generally been the highest in the third and fourth quarters of our fiscal year due to corporate calendar year-end spending trends as well as the typical seasonality related to the end of our fiscal year. We believe that the seasonality of our license revenue is likely to continue.

We believe that continued investment in research and development is critical to achieving our strategic objectives. We intend to increase our staff in the direct sales organization and increase our marketing efforts. We will continue to invest in our corporate infrastructure to improve the effectiveness of management. As a result, we expect that research and development, sales and marketing, and general and administrative expenditures will increase in absolute dollars in fiscal year 2007.

We have adopted SFAS No. 123R "Share-Based Payment" for all periods beginning with the quarter ending June 30, 2006. Under SFAS 123R, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. We are currently evaluating the impact of the adoption of SFAS 123R on our financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards. However, we believe that the adoption of SFAS 123R will have a material effect on our earnings per share.

RESULTS OF OPERATIONS

The following table summarizes the results of our operations for each of the past three fiscal years (all percentages are calculated using the underlying data in thousands):

	Fiscal Year Ended				
	March 31, 2006	Percentage Change	March 31, 2005	Percentage Change	March 31, 2004
			($ in thousands)		
Total revenue	208,818	4.1%	200,601	5.8%	189,541
Total cost of revenue	58,861	(2.9)%	60,603	6.5%	56,923
% of total revenue	28.2%		30.2%		30.0%
Gross profit	149,957	7.1%	139,998	5.6%	132,618
% of total revenue	71.8%		69.8%		70.0%
Total operating expenses	138,504	(13.3)%	159,722	(4.8)%	167,827
% of total revenue	66.3%		79.6%		88.5%
Operating income (loss)	11,453	N/A	(19,724)	(44.0)%	(35,209)
% of total revenue	5.5%		(9.8)%		(18.6)%
Net income (loss)	18,022	N/A	(18,751)	(43.2)%	(33,024)
% of total revenue	8.6%		(9.3)%		(17.4)%

Net income for our fiscal year ended March 31, 2006 increased to approximately $18.0 million from a net loss of $18.8 million in fiscal year 2005, or an improvement of $36.8 million. This improvement is due primarily to a $21.2 million decrease in total operating expenses, an $8.2 million increase in total revenue, a $4.0 million increase in interest income and other non-operating income, net, a $1.7 million decrease in total cost of revenue and a $1.3 million income tax benefit in fiscal year 2006 as compared to a $235,000 provision for taxes in fiscal year 2005. Net loss for fiscal year 2005 decreased to $18.8 million from $33.0 million in fiscal year 2004, or an improvement of $14.3 million. This improvement is due primarily to an $11.1 million increase in total revenue and an $8.1 million decrease in total operating expenses, partially offset by a $3.7 million increase in total cost of revenue, a $1.0 million decrease in interest income and other non-operating income, net, and a $235,000 increase in income taxes.

Total revenue for fiscal year 2006 included a $2.6 million negative foreign currency impact from certain international markets, which was partially offset by a $1.6 million positive foreign currency impact on total cost of revenue and total operating expenses, resulting in a negative impact of $1.0 million to operating income in fiscal year 2006. Total revenue for fiscal year 2005 included a $5.5 million positive foreign currency impact from certain international markets, which was partially offset by a $4.3 million negative foreign currency impact on total cost of revenue and total operating expenses, resulting in a positive impact of $1.2 million to operating loss in fiscal year 2005.

Revenue

The following table summarizes our revenue for each of the past three fiscal years:

	Fiscal Year Ended				
	March 31, 2006	Percentage Change	March 31, 2005	Percentage Change	March 31, 2004
			($ in thousands)		
License	$ 87,449	0.7%	$ 86,800	(6.4)%	$ 92,740
Professional services	47,183	(4.1)%	49,218	12.8%	43,634
Maintenance	74,186	14.9%	64,583	21.5%	53,167
Total revenue	$ 208,818	4.1%	$ 200,601	5.8%	$ 189,541

The following table summarizes our revenue by geographic region for each of the past three fiscal years:

	Fiscal Year Ended				
	March 31, 2006	Percentage Change	March 31, 2005	Percentage Change	March 31, 2004
			($ in thousands)		
Americas	$ 131,410	9.9%	$ 119,610	4.5%	$ 114,507
EMEA	52,884	4.5%	50,599	12.5%	44,965
Japan	9,100	(40.0)%	15,157	(2.0)%	15,472
Asia Pacific	15,424	1.2%	15,235	4.4%	14,597
Total revenue	$ 208,818	4.1%	$ 200,601	5.8%	$ 189,541

Total Revenue

Total revenue for fiscal year 2006 increased by approximately $8.2 million, or 4%, compared to fiscal year 2005. The increase in total revenue was due to increases of $9.6 million in maintenance revenue and $649,000 in license revenue, partially offset by a $2.0 million decrease in professional services revenue. Total revenue for fiscal year 2005 increased by $11.1 million, or 6%, compared to fiscal year 2004. The increase in total revenue was due to increases of $11.4 million in maintenance revenue and $5.6 million in professional services revenue, which were partially offset by a $5.9 million decrease in license revenue.

Total revenue from the Americas for fiscal year 2006 increased by $11.8 million, or 10%, compared to fiscal year 2005. Total international revenue for fiscal year 2006 from Europe, the Middle East and Africa ("EMEA"), Asia Pacific and Japan decreased by $3.6 million, or 4%, compared to fiscal year 2005. The decrease in total international revenue for fiscal year 2006 is primarily due to a $6.1 million, or 40%, decline in revenue from Japan, which was partially offset by increases in revenue from EMEA and Asia Pacific. Our Japanese operations were negatively impacted by the management turnover and changes in the business of our Japanese subsidiary related to the internal investigation that we disclosed in fiscal year 2005. Total revenue from the Americas for fiscal year 2005 increased by $5.1 million, or 4%, compared to fiscal year 2004. Total international revenue for fiscal year 2005 increased by $6.0 million, or 8%, compared to fiscal year 2004. International revenue accounted for 37% of our total revenue in fiscal year 2006 and 40% in fiscal years 2005 and 2004.

License Revenue

License revenue for fiscal year 2006 increased by $649,000, or 1%, compared to fiscal year 2005. License revenue for fiscal year 2005 decreased by $5.9 million, or 6%, in fiscal year 2005 compared to fiscal year 2004. The decrease in license revenue in fiscal year 2005 was due in part to a significant decrease in license revenue in the first fiscal quarter of 2005 as many enterprises became more cautious in their enterprise software spending. The decrease in license revenue was also due in part to lower license revenue from Japan due to the disruption associated with the internal investigation of our Japanese operations and related management changes.

Foreign currency fluctuations had a negative impact on license revenue of $1.0 million in fiscal year 2006 and a positive impact of $2.8 million and $4.8 million in fiscal years 2005 and 2004, respectively.

Professional Services Revenue

Professional services revenue for fiscal year 2006 decreased by $2.0 million, or 4%, compared to fiscal year 2005. The decrease was primarily due to lower professional services revenue from subcontractors because we shifted a portion of our lower margin integration services to our systems integration partners. Professional services revenue for fiscal year 2005 increased by $5.6 million, or 13%, compared to fiscal year 2004. The increase was primarily due to an increase in the volume and size of customer engagements.

Foreign currency fluctuations had a negative impact on professional services revenue of $628,000 in fiscal year 2006 and a positive impact of $1.1 million and $1.9 million in fiscal years 2005 and 2004, respectively.

Maintenance Revenue

Maintenance revenue for fiscal year 2006 increased by $9.6 million, or 15%, compared to fiscal year 2005. Maintenance revenue for fiscal year 2005 increased by $11.4 million, or 21%, compared to fiscal year 2004. Our existing customers contract with us, separately from licensing our software, for software upgrades and technical support of software they have licensed from us. Our customers generally continue to subscribe for maintenance and support when they are no longer required to pay license fees. This results in increases in maintenance revenue as the cumulative number of licensed copies of our software increase. The increases in maintenance revenue in fiscal years 2006 and 2005 were due primarily to the increase in the total number of copies of our software licensed to customers, the cumulative effect of agreements for post-contract maintenance and support, which are recognized as revenue ratably over the term of the agreement, and the increased number of customers subscribing for our 24 × 7 support plans, which involve somewhat higher prices than our standard support plans.

Foreign currency fluctuations had a negative impact on maintenance revenue of $949,000 in fiscal year 2006 and a positive impact of $1.6 million and $2.1 million in fiscal years 2005 and 2004, respectively.

Cost of Revenue

The following table summarizes our cost of revenue by type of revenue for each of the past three fiscal years:

	Fiscal Year Ended		
	March 31, 2006	March 31, 2005	March 31, 2004
	($ in thousands)		
Amortization of Intangibles	2,397	2,397	1,199
% of License Revenue	2.7%	2.8%	1.3%
Cost of License Revenue	1,002	1,252	2,211
% of License Revenue	1.1%	1.4%	2.4%
Cost of Professional Services Revenue	42,688	43,989	42,308
% of Professional Services Revenue	90.5%	89.4%	97.0%
Cost of Maintenance Revenue	12,774	12,965	11,205
% of Maintenance Revenue	17.2%	20.1%	21.1%
Total cost of revenue	58,861	60,603	56,923
% of Total revenue	28.2%	30.2%	30.0%

Total cost of revenue for fiscal year 2006 decreased by approximately $1.7 million, or 3%, compared to fiscal year 2005. The decrease is due to a $1.3 million decrease in cost of professional services revenue, a $250,000 decrease in cost of license revenue and a $191,000 decrease in cost of maintenance revenue. Total cost of revenue for fiscal year 2005 increased by $3.7 million, or 6%, compared to fiscal year 2004. The increase is due to a $1.8 million increase in cost of maintenance revenue, a $1.7 million increase in cost of professional services revenue and a $1.2 million increase in amortization of intangibles, partially offset by a $1.0 million decrease in cost of license revenue.

Total gross profit margin increased to 72% in fiscal year 2006 as compared to 70% in fiscal years 2005 and 2004. The increase in fiscal year 2006 was primarily due to an increase in license and maintenance revenue, as well as a decrease in our total cost of revenue.

Cost of license revenue for fiscal year 2006 decreased $250,000, or 20%, compared to fiscal year 2005 due to lower royalty fees from products embedded in our software that are licensed from third parties.

Cost of license revenue for fiscal year 2005 decreased $1.0 million, or 43%, compared to fiscal year 2004 also due to a decline in royalty fees. Amortization of intangible assets related to acquired technology from previous acquisitions was the same in fiscal years 2006 and 2005. For fiscal year 2005, amortization of acquired intangibles increased $1.2 million, or 100%, compared to fiscal year 2004. Gross profit margin on license revenue, net of the amortization of intangibles and cost of license revenue, was 96% for each of fiscal years 2006, 2005 and 2004.

Cost of professional services revenue consists primarily of costs related to internal professional services and subcontractors hired to provide implementation services. Cost of professional services revenue for fiscal year 2006 decreased $1.3 million, or 3%, compared to fiscal year 2005 due primarily to our hiring of fewer subcontractors to provide implementation services. Cost of professional services revenue for fiscal year 2005 increased $1.7 million, or 4%, compared to fiscal year 2004 due primarily to an increase in the volume and size of customer engagements. Gross profit margin on professional services revenue was 10%, 11% and 3% in fiscal years 2006, 2005 and 2004, respectively.

Cost of maintenance revenue for fiscal year 2006 decreased $191,000, or 1%, compared to fiscal year 2005 due to reduced costs of third party contractors. Cost of maintenance revenue for fiscal year 2005 increased $1.8 million, or 16%, compared to fiscal year 2004 due primarily to increased costs of third party contractors. Gross profit margin on maintenance revenue was 83%, 80% and 79% in fiscal years 2006, 2005 and 2004, respectively. The increase in fiscal years 2006 and 2005 was primarily due to increases in maintenance revenue.

Operating expenses

The following table presents certain information regarding our operating expenses during each of the past three fiscal years:

	Fiscal Year Ended				
	March 31, 2006	Percentage Change	March 31, 2005	Percentage Change	March 31, 2004
			($ in thousands)		
Operating Expenses:					
Sales and marketing	$ 74,084	(12.1)%	$ 84,313	(10.7)%	$ 94,433
% of total revenue	35.5%		42.0%		49.8%
Research and development	40,197	(9.7)%	44,518	(1.2)%	45,060
% of total revenue	19.2%		22.2%		23.8%
General and administrative	23,812	(4.9)%	25,042	40.1%	17,880
% of total revenue	11.4%		12.5%		9.4%
Restructuring and related charges	411	(93.0)%	5,849	49.2%	3,920
% of total revenue	0.2%		2.9%		2.1%
In-process research and development	—	—	—	(100.0)%	4,284
% of total revenue	—		—		2.3%
Settlement of intellectual property matter	—	—	—	(100.0)%	2,250
% of total revenue	—		—		1.2%
Total operating expenses	$ 138,504	(13.3)%	$ 159,722	(4.8)%	$ 167,827
% of total revenue	66.3%		79.6%		88.5%

Operating expenses are primarily classified as sales and marketing, research and development and general and administrative. Each category includes related expenses for compensation, employee benefits, professional fees, travel, communications, allocated facilities, recruitment, amortization of deferred stock compensation and overhead costs. Our sales and marketing expenses also include expenses which are specific to our sales and marketing activities, such as commissions, trade shows, public relations, business development costs, promotional costs, marketing materials and deferred warrant charge. Also included in

1404416063

our operating expenses are restructuring and other related charges, in-process research and development and settlement of intellectual property matter.

Total operating expenses for fiscal year 2006 decreased approximately $21.2 million, or 13%, compared to fiscal year 2005. The decrease was due to a $10.2 million decrease in sales and marketing costs, a $5.4 million decrease in restructuring and other related charges, a $4.3 million decrease in research and development costs and a $1.2 million decrease in general and administrative costs. Total operating expenses for fiscal year 2005 decreased $8.1 million, or 5%, compared to fiscal year 2004. The decrease was due to a $10.1 million decrease in sales and marketing costs, a $4.3 million decrease in in-process research and development write-offs, a $2.3 million decrease in settlement of intellectual property matter and a $542,000 decrease in research and development costs, partially offset by a $7.2 million increase in general and administrative costs and a $1.9 million increase in restructuring and other related charges. Foreign currency fluctuations had a positive impact on total operating expenses of $920,000 in fiscal year 2006 and a negative impact of $3.0 million in fiscal year 2005.

Sales and marketing expense for fiscal year 2006 decreased $10.2 million, or 12%, compared to fiscal year 2005. The decrease was primarily due to a $5.2 million decrease in personnel and related overhead costs, a $1.6 million decrease in referrals and external commissions, a $1.4 million decrease in travel costs, a $924,000 decrease in marketing costs and a $558,000 decrease in professional services. Sales and marketing expense for fiscal year 2005 decreased $10.1 million, or 11%, compared to fiscal year 2004. The decrease was primarily due to a $5.6 million decrease in personnel and related overhead costs, a $1.1 million decrease in travel expenses, an $844,000 decrease in marketing program costs and a $542,000 decrease in commission expenses. The decreases in sales and marketing expenses for fiscal year 2006 and fiscal year 2005 are primarily the result of a worldwide program to reduce costs that commenced in the second half of fiscal year 2005 and included headcount reductions, consolidation of facilities and reductions in travel costs, marketing programs and other expenses. Included in sales and marketing expense was amortization of deferred warrant charge of $2.5 million, $2.6 million and $2.6 million for the fiscal years 2006, 2005 and 2004, respectively. The deferred warrant charge was recorded as a result of a warrant issued in connection with an OEM Agreement with i2 Technologies ("i2") in March 2001. That warrant, as amended, permitted i2 to purchase 710,000 shares of our common stock. The amortization of deferred warrant charge terminated at the end of March 2006. Sales and marketing expense was 35%, 42% and 50% of total revenue in fiscal years 2006, 2005 and 2004, respectively.

Research and development expense for fiscal year 2006 decreased $4.3 million, or 10%, compared to fiscal year 2005. The decrease was primarily due to a $4.6 million decrease in personnel costs and related overhead charges, primarily as a result of the increased utilization of our product development center in Bangalore, India during fiscal year 2005, which has lower personnel costs and operating expenses than our product development centers in the United States, and a $278,000 decrease in travel costs, partially offset by a $418,000 increase in professional services costs. Research and development expense for fiscal year 2005 was relatively flat compared to fiscal year 2004. Research and development expense was 19%, 22% and 24% of total revenue in fiscal years 2006, 2005 and 2004, respectively. As of March 31, 2006, approximately 20% of our worldwide product development staff are located in India.

General and administrative expenses for fiscal year 2006 decreased $1.2 million, or 5%, compared to fiscal year 2005. The decrease was primarily due to a $1.1 million decrease in legal fees, a $722,000 decrease in bad debt expense, a $286,000 decrease in business insurance and a $245,000 decrease in property, franchise and other taxes, partially offset by a $1.2 million increase in personnel and related overhead costs. Included in general and administrative expense was a $750,000 charge for a litigation settlement payment, net of insurance reimbursement. General and administrative expenses for fiscal year 2005 increased $7.2 million, or 40%, compared to fiscal year 2004. The increase was primarily due to a $2.7 million increase in legal fees, a $2.2 million increase in accounting and audit fees and a $1.4 million increase in personnel and related overhead costs. General and administrative expense as a percentege of total revenue, was 11%, 12% and 9% for fiscal years 2006, 2005 and 2004, respectively.

We have incurred restructuring and other related charges to align our cost structure with changing market conditions. Restructuring costs decreased in both amount and as a percentage of total revenue in fiscal year 2006 as compared to fiscal years 2005 and 2004. During fiscal year 2006, we incurred restructuring costs of $411,000, which includes restructuring costs of $719,000 consisting primarily of severance and related benefits, net of a $308,000 reduction in the accrual for excess facilities costs. During fiscal year 2005, we recorded restructuring and related charges of $5.9 million, consisting of $2.8 million for headcount reductions and $3.1 million for excess facility costs related to the relocation of our headquarters. During fiscal year 2004, we recorded restructuring and related charges of $3.9 million, consisting of $2.2 million for headcount reductions and $1.7 million for excess facilities cost related to the consolidation of facilities and related impairment of fixed assets. The estimated excess facility costs were based on our contractual obligations, net of estimated sublease income, based on current comparable lease rates. We reassess this liability each period based on market conditions. Revisions to the estimates of this liability could materially impact our operating results and financial position in future periods if antisipated events and key assumptions, such as the timing and amounts of sublease rental income, either change or do not materialize.

We incurred an in-process research and development charge of $4.3 million for fiscal year 2004. There was no in-process research and development charge for fiscal years 2006 and 2005. The $4.3 million charge during fiscal year 2004 consists of: (i) a one-time charge of $3.1 million recorded in connection with the acquisition and write-off of The Dante Group technology and (ii) a one-time charge of $1.2 million recorded in connection with the acquisition and write-off of The Mind Electric technology. We also incurred a $2.3 million charge in fiscal year 2004 related to the settlement of an intellectual property matter.

Interest income

Interest income was $4.5 million for fiscal year 2006 compared to $2.5 million for fiscal year 2005. The $2.0 million increase was primarily due to the higher average balances of cash and marketable securities during fiscal year 2006 and higher interest rates on corporate paper, bonds and money market funds. Interest income was $2.5 million for fiscal year 2005 compared to $2.9 million for fiscal year 2004. The $364,000 decrease was primarily due to the lower average balances of cash and marketable securities during fiscal year 2005 as a result of the use of cash in connection with payments for acquisitions in October 2003.

Interest expense

Interest expense is primarily due to equipment leasing arrangements in the Americas. For fiscal year 2006, interest expense decreased to $82,000, as compared to $98,000 in fiscal year 2005 and $205,000 in fiscal year 2004.

Other income (expense), net

Other income (expense), net includes gains and losses on foreign currency transactions. Other income was $807,000 for fiscal year 2006 as compared to other expense of $124,000 for fiscal year 2005 and $461,000 for fiscal year 2004.

Impairment of equity investment in private companies

We recognized an other-than-temporary decline in value of $1.0 million in private company investments in fiscal year 2005.

Income taxes

We recorded an income tax benefit of $1.3 million in fiscal year 2006, which included a $2.1 million reduction of valuation allowance on net operating loss carryforwards and other deferred tax assets of our Australian subsidiary. This benefit was partially offset by income tax expense of $757,000 incurred in our foreign operations and $38,000 of federal and state income taxes. During fiscal year 2005, we recorded income tax expense of $235,000 that was incurred in our foreign operations. There was no tax expense recorded for fiscal year 2004.

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The recognition of deferred tax assets is recorded when the realization of such assets is more likely than not, considering all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies. We had provided a full valuation allowance against our net deferred tax assets as of March 31, 2005 based on a number of factors, which included historical operating performance and cumulative net losses. During fiscal year 2006, we released the $2.1 million valuation allowance for the net deferred tax assets of our Australian subsidiary because we determined that it was more likely than not that the net deferred tax assets would be realizable based on our analysis of all available evidence, both positive and negative.

As of March 31, 2006, we had net operating loss ("NOL") carry-forwards of approximately $197 million. These NOL carry-forwards are available to reduce future taxable income and begin to expire in fiscal year 2011. The realization of benefits of the NOLs is dependent on sufficient taxable income in future years. Lack of future earnings, a change in our ownership, or the application of the alternative minimum tax rules could adversely affect our ability to utilize the NOLs.

Quarterly results of operations

The following tables set forth consolidated statement of operations data for each of the eight quarters ended March 31, 2006 as well as that data expressed as a percentage of the total revenue for the quarters presented. This information has been derived from our unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements contained elsewhere in this report and include all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair statement of such information. You should read this information in conjunction with our annual audited consolidated financial statements and related notes appearing elsewhere in this report. Historical results may not be indicative of future results.

	Three Months Ended							
	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	Mar. 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
	(In thousands)							
Revenue:								
License	$27,628	$21,964	$19,390	$18,467	$22,190	$25,953	$23,851	$ 14,806
Professional services	12,547	11,627	11,326	11,683	12,763	11,854	12,077	12,524
Maintenance	19,241	18,908	18,452	17,585	17,982	17,156	14,838	14,607
Total revenue	59,416	52,499	49,168	47,735	52,935	54,963	50,766	41,937
Cost of revenue:								
Amortization of intangibles	600	599	599	599	600	599	599	599
License	299	218	271	214	135	252	245	620
Professional services	12,013	10,368	10,008	10,299	11,293	10,402	11,070	11,224
Maintenance	3,182	2,864	3,473	3,255	3,344	3,362	3,210	3,049
Total cost of revenue	16,094	14,049	14,351	14,367	15,372	14,615	15,124	15,492
Gross profit	43,322	38,450	34,817	33,368	37,563	40,348	35,642	26,445
Operating expenses:								
Sales and marketing	20,209	19,549	17,051	17,275	19,187	22,764	20,587	21,775
Research and development	9,973	8,980	10,126	11,118	11,771	10,877	10,820	11,050
General and administrative	6,270	5,927	5,401	6,214	8,008	7,093	4,868	5,073
Restructuring and related charges	(191)	(117)	431	288	3,093	—	2,756	—
Total operating expenses	36,261	34,339	33,009	34,895	42,059	40,734	39,031	37,898
Operating loss	7,061	4,111	1,808	(1,527)	(4,496)	(386)	(3,389)	(11,453)

	Three Months Ended							
	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	Mar. 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
	(In thousands)							
Interest income	1,374	1,137	1,019	966	787	615	532	553
Interest expense	(5)	(14)	(46)	(17)	(15)	(28)	(29)	(27)
Other (expense)/income	235	346	20	206	(92)	(27)	(116)	112
Impairment of equity investments in private companies	—	—	—	—	—	—	(1,057)	—
Net (loss)/income before taxes	8,665	5,580	2,801	(372)	(3,816)	174	(4,059)	(10,815)
Provision for (benefit from) income taxes	(1,803)	70	243	142	40	126	65	4
Net (loss)/income	$10,468	$ 5,510	$ 2,558	$ (514)	$(3,856)	$ 48	$(4,124)	$(10,819)
Basic net income (loss) per share	0.19	0.10	0.05	(0.01)	(0.07)	0.00	(0.08)	(0.20)
Shares used in computing basic net income (loss) per share	54,367	53,773	53,610	53,375	53,332	53,156	53,089	52,827
Diluted net income (loss) per share	0.19	0.10	0.05	(0.01)	(0.07)	0.00	(0.08)	(0.20)
Shares used in computing diluted net income (loss) per share	56,550	55,778	54,305	53,375	53,332	54,144	53,089	52,827

	As a Percentage of Total Revenue							
	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	Mar. 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
	(In thousands)							
Revenue:								
License	46.5%	41.8%	39.5%	38.7%	41.9%	47.2%	47.0%	35.3%
Professional services	21.1	22.2	23.0	24.5	24.1	21.6	23.8	29.9
Maintenance	32.4	36.0	37.5	36.8	34.0	31.2	29.2	34.8
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenue:								
Amortization of intangibles	1.0	1.1	1.2	1.3	1.1	1.1	1.2	1.4
License	0.5	0.4	0.6	0.4	0.3	0.5	0.5	1.5
Professional services	20.2	19.8	20.4	21.6	21.3	18.9	21.8	26.8
Maintenance	5.4	5.5	7.1	6.8	6.3	6.1	6.3	7.2
Total cost of revenue	27.1	26.8	29.3	30.1	29.0	26.6	29.8	36.9
Gross profit	72.9	73.2	70.7	69.9	71.0	73.4	70.2	63.1
Operating expenses:								
Sales and marketing	34.0	37.2	34.7	36.2	36.2	41.4	40.6	51.9
Research and development	16.8	17.1	20.6	23.3	22.2	19.8	21.3	26.3
General and administrative	10.6	11.3	11.0	13.0	15.1	12.9	9.6	12.1
Restructuring and related charges	(0.3)	(0.2)	0.9	0.6	5.8	—	5.4	—
Total operating expenses	61.1	65.4	67.2	73.1	79.5	74.1	76.9	90.4
Operating income (loss)	11.9	7.8	3.7	(3.2)	(8.5)	(0.7)	(6.7)	(27.3)
Interest income	2.3	2.2	2.1	2.0	1.5	1.1	1.1	1.3
Interest expense	—	—	(0.1)	—	—	(0.1)	(0.1)	(0.1)
Other (expense)/income	0.4	0.7	—	0.4	(0.2)	—	(0.2)	0.3
Impairment of equity investments in private companies	—	—	—	—	—	—	(2.1)	—
Net (loss)/income before taxes	14.6	10.7	5.7	(0.8)	(7.2)	0.3	(8.0)	(25.8)
Provision for (benefit from) income taxes	(3.0)	0.1	0.5	0.3	0.1	0.2	0.1	0.0
Net (loss)/income	17.6%	10.5%	5.2%	(1.1)%	(7.3)%	0.1%	(8.1)%	(25.8)%

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

As of March 31, 2006 we had cash, cash equivalents and short-term and long-term securities available for sale in the amount of $162.3 million, as compared to $150.1 million as of March 31, 2005.

Net cash provided by operating activities was $18.0 million in fiscal year 2006, resulting from net income of $18.0 million, adjusted for $7.3 million of non-cash charges and partially offset by $7.3 million of net changes in assets and liabilities. The non-cash charges included $5.3 million for depreciation and amortization expense, $2.6 million for amortization of stock-based compensation, $2.4 million for amortization of acquired intangibles and $2.2 million for the release of deferred tax valuation allowance. The net changes in assets and liabilities included an $17.6 million increase in accounts receivable, a $12.9 million increase in deferred revenue and a $4.4 million decrease in accrued expenses.

Net cash provided by investing activities was $7.1 million in fiscal year 2006, resulting from the net maturities of marketable securities of $13.1 million, partially offset by $5.1 million of capital expenditures and an $899,000 increase in restricted cash. Capital expenditures consisted of purchases of operating resources to manage operations, including computer hardware and software, office furniture and equipment and leasehold improvements.

Net cash provided by financing activities was $4.3 million in fiscal year 2006, resulting from $3.6 million of net cash proceeds from exercises of stock options and $1.3 million of net cash proceeds from our Employee Stock Purchase Plan ("ESPP") common stock issuances, partially offset by payments of $585,000 on capital leases.

Liquidity Requirements

Debt Financing

We have a line of credit agreement with a bank to borrow up to a maximum principal amount of $20 million and a $2 million equipment line of credit facility. Both facilities have a maturity date of June 29, 2006.

We may borrow the entire $20 million operating line of credit as long as the aggregate balances of cash and cash equivalents on deposit with financial institutions in the United States and marketable securities trading on a national exchange are at least $85 million; otherwise, borrowings under this facility are limited to 80% of eligible accounts receivable. Interest is payable on any unpaid principal balance at the bank's prime rate. Borrowings under the equipment line of credit will bear interest at a fixed 8% rate or prime plus 1%, at our option and must be repaid over 36 months. The agreement for both facilities include restrictive covenants that require us to maintain, among other things, a ratio of quick assets (as defined in the agreement) to current liabilities, excluding deferred revenue, of at least 1.5 to 1.0 and a quarterly revenue covenant such that total revenue for each fiscal quarter must be at least $45 million. At March 31, 2006, we were in compliance with these covenants.

As of March 31, 2006, we had not borrowed against the operating line of credit or the equipment line of credit. In connection with the operating line of credit agreement, we have obtained letters of credit totaling approximately $2.6 million related to office leases. As of March 31, 2006, we had $17.4 million available under the operating line of credit and $2.0 million available under the equipment line of credit.

Contractual Obligations

The following table summarizes our significant contractual obligations at March 31, 2006, which are comprised of capital and operating leases. These obligations are expected to have the following effects on our liquidity and cash flows in future periods:

	Operating	Capital
	(In thousands)	
Years ending March 31, 2007	$ 11,562	$ 264
2008	7,926	10
2009	4,612	—
2010	4,279	—
2011	4,338	—
Thereafter	18,131	—
	$ 50,848	$ 274
Less amounts representing interest		(5)
		269
Less current portion		(259)
Capital lease obligation, net of current portion		$ 10

Liquidity Outlook

Our short-term liquidity requirements through March 31, 2007 consist primarily of the funding of capital expenditures and working capital requirements. We believe that cash flow from operations will be sufficient to meet these short-term requirements. In the event that cash flow from operations is not sufficient, we expect to fund these amounts through the use of cash resources. In addition, we expect to renew our credit line, which matures on June 29, 2006.

Our long-term liquidity requirements consist primarily of obligations under our operating leases. We believe that cash flow from operations will be sufficient to meet these long-term requirements.

In addition, we may utilize cash resources, equity financing or debt financing to fund acquisitions or investments in complementary businesses, technologies or product lines.

Off Balance Sheet Arrangements

We are not a party to any agreements with, or commitments to, any special-purpose entities that would constitute off balanee sheet financing.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. We evaluate our estimates on an ongoing basis, including those related to allowances for bad debts, investments, intangible assets, income taxes, restructuring accrual, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ for these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We enter into arrangements, which may include the sale of licenses of our software, professional services and maintenance or various combinations of each element. We recognize revenue based on Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended, and modified by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 modified SOP 97-2 by requiring revenue to be recognized using the "residual method" if certain conditions are met. Revenue is recognized based on the residual method when an agreement has been signed by both parties, the fees are fixed or determinable, collection of the fees is probable, delivery of the product has occurred, vendor specific objective evidence of fair value exists for any undelivered element, and no other significant obligations remain. Revenue allocated to the undelivered elements is deferred using vendor-specific objective evidence of fair value of the elements and the remaining portion of the fee is allocated to the delivered elements (generally the software license). Revenue on shipments to resellers is recognized when the products are sold by the resellers to an end-user customer. Provided that all other revenue criteria are met, fees from OEM customers are generally recognized upon delivery and ongoing royalty fees are generally recognized upon reported units shipped. Judgments we make regarding these items, including collection risk, can materially impact the timing of recognition of license revenue.

Many customers who license our software also enter into separate professional services arrangements with us. Services are generally separable from the other elements under the arrangement since the performance of the services is not essential to the functionality (i.e. the services do not involve significant production, modification or customization of the software or building complex interfaces) of any other element of the transaction. Generally, consulting and implementation services are sold on a time-and-materials basis and revenue is recognized when the services are performed. Contracts with fixed or not to exceed fees are recognized on a percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for professional services, revenue is deferred until the uncertainty is sufficiently resolved.

Policies related to revenue recognition require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance and evolving business practices. These sources may publish new authoritative guidance which might impact current revenue recognition policies. We continue to evaluate our revenue recognition policies as new authoritative interpretations and guidance are published, and where appropriate, may modify our revenue recognition policies. Application of our revenue recognition policy requires a review of our license and professional services agreements with customers and may require management to exercise judgment in evaluating whether delivery has occurred, payments are fixed or determinable, collection is probable, and where applicable, if vendor-specific objective evidence of fair value exists for undelivered elements of the contract. If we made different judgments or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses which may result from the inability of our customers to make required payments to us. These allowances are established through analysis of the creditworthiness of each customer with a receivable balance, determined by credit reports from third parties, published or publicly available financial information, each customer's specific experience including payment practices and history, inquiries and other financial information from our customers. The use of different estimates or assumptions could produce materially different allowance balances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. At March 31, 2006 and March 31, 2005, the allowance for doubtful accounts was $652,000 and $1.9 million, respectively.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development (IPR&D) based on their estimated fair values. This valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain of the intangible assets and subsequently assessing the realizability of such assets include but are not limited to: future expected cash flows from license sales, maintenance agreements, consulting contracts, customer contracts, and acquired developed technologies and IPR&D projects, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Other estimates associated with the accounting for these acquisitions and subsequent assessment of impairment of the assets may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Goodwill and Intangible Assets

We record goodwill and intangible assets when we acquire other businesses. The allocation of acquisition cost to intangible assets and goodwill involves the extensive use of management's estimates and assumptions, and the result of the allocation process can have a significant impact on our future operating results. Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), which was issued during fiscal year 2002 and adopted by us on April 1, 2002, eliminated the amortization of goodwill and indefinite lived intangible assets. Intangible assets with finite lives are amortized over their useful lives while goodwill and indefinite lived assets are not amortized under SFAS 142, but are periodically tested for impairment. In accordance with SFAS 142, all of our goodwill is associated with our one reporting unit, as we do not have multiple reporting units. Accordingly, on an annual basis we perform the impairment assessment required under SFAS 142 at the enterprise level. We have used our total market capitalization to assess the fair value of the enterprise. If our estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying value of these assets, which could be substantial.

Acquired In-process Research and Development

Costs to acquire in-process research and development technologies which have no alternative future use and which have not reached technological feasibility at the date of acquisition are expensed as incurred. The value of in-process technology was determined by estimating the projected net cash flows when completed, reduced by portion of the revenue attributable to developed technology. The resulting cash flows are then discounted back to their present values at appropriate discount rates. Consideration is given to the stage of completion, complexity of the work completed to date, the difficulty of completing the remaining development and the costs already incurred.

Foreign Currency Effects

The functional currency for our foreign operations is the local currency. The financial statements of foreign subsidiaries have been translated into United States dollars. Asset and liability accounts have been translated using the exchange rate in effect at the balance sheet date. Revenue and expense accounts have been translated using the average exchange rate for the period. The gains and losses associated with the translation of the financial statements resulting from the changes in exchange rates from period to period have been reported in other comprehensive income or loss, which is a separate component of stockholder's equity. Transaction gains or losses are included in net income or loss in the period in which they occur.

SFAS 52, "Foreign Currency Translation," requires that foreign exchange gains and losses resulting from the translation of intercompany debt balances be accounted for based on the characterization of the intercompany debt balances. Intercompany debt balances are considered long-term permanent advances if settlement is not planned or anticipated in the foreseeable future. Translation gains and losses on long-term intercompany debt balances for which repayment is not planned or anticipated in the foreseeable future are recognized as other comprehensive income or loss, whereas translation gains or losses on short-term or long-term intercompany debt balances expected to be settled in the foreseeable future are recognized as a charge or credit to other income (expense). If there is a change in the characterization of long-term intercompany debt balances that were previously characterized as permanent advances to short-term intercompany debt balances repayable in the foreseeable future, then translation gains or losses would be recognized as a charge or credit to other income (expense) prospectively. During the three months ended December 31, 2005, a number of foreign subsidiaries repaid certain long-term intercompany debt balances that were previously characterized as permanent advances, and it is expected that they will settle future intercompany transactions on a short-term basis. During the three months ended March 31, 2006, we made a further determination that certain intercompany debt balances that were previously characterized as permanent advances would eventually be repaid in the foreseeable future and therefore we recharacterized these amounts as short-term intercompany balances. As a result, translation gains or losses on certain intercompany debt balances will now be recognized as a charge or credit to other income (expense).

Accounting for Income Taxes

In determining our net deferred tax assets and valuation allowances, we are required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methodologies and prudent and feasible tax planning strategies. Judgments and estimates related to our projections and assumptions are inherently uncertain, therefore, actual results could differ materially from our projections.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance. If we should determine that we would be able to realize our deferred tax assets in the foreseeable future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be included in income in the period such determination was made.

Stock-Based Compensation

We measure compensation expense for employee stock-based compensation using the intrinsic value method. Under this method, if the exercise price of options granted to employees is less than the fair value of the underlying stock on the grant date, compensation expense is recognized over the applicable vesting period. We also provide pro forma disclosures of net loss as if the fair value method had been applied in measuring compensation expense, consistent with the methodology prescribed in SFAS No. 123, "Accounting for Stock-Based Compensation."

Effective April 1, 2006, we will adopt SFAS No. 123R "Share-Based Payment." Under SFAS 123R, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. We are currently evaluating the impact of the adoption of SFAS 123R on our financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards. However, we believe that the adoption of SFAS 123R will have a material adverse effect on our results of operations.

On December 16, 2005, the Compensation Committee of our Board of Directors approved the acceleration of vesting of all outstanding, unvested and "out-of-the-money" stock options of the Company previously granted to our employees, consultants or directors prior to September 30, 2005 with an exercise price higher than the closing price of our Common Stock on December 16, 2005, which was $7.53. The acceleration of such options was effective as of December 16, 2005, provided that the holder of such options was an employee, consultant or director on such date. The total number of options accelerated was 2,172,180. The decision to accelerate the vesting of those options was made primarily to eliminate future compensation expense attributable to these options, which otherwise would have been expensed beginning on April 1, 2006 as a result of the adoption of SFAS No. 123R, "Share-Based Payment." The acceleration will allow us to forego approximately $11.0 million of stock compensation expense in future operating results commencing in the first fiscal quarter of 2007 when SFAS No. 123R is implemented.

Restructuring and Related Charges

We have recorded restructuring and related charges to align our cost structure with changing market conditions. These restructuring and related charges consist of headcount reductions, consolidation and relocation of facilities and related impairment of fixed assets. Excess facility costs related to the consolidation and relocation of facilities are based on our contractual obligations, net of estimated sublease income based on current comparable lease rates. We reassess this liability each period based on market conditions. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and key assumptions, such as the timing and amounts of sublease rental income, either change or do not materialize.

Litigation and Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted.

Recently Issued Accounting Pronouncements

In December 2004 the FASB issued revised SFAS 123R, "Share-Based Payment," which sets forth accounting requirements for "share-based" compensation to employees and requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation. We currently provide pro forma disclosure of the effect on net income or loss and earnings or loss per share of the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation." Under SFAS 123R, such pro forma disclosure will no longer be an alternative to financial statement recognition. SFAS 123R is effective for annual periods beginning after June 15, 2005 and, accordingly, we must adopt the new accounting provisions effective April 1, 2006 and recognize the cost of all share-based payments to employees, including stock option grants, in the income statement based on their fair values. We are currently evaluating the impact of the adoption of SFAS 123R on our results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards. However, we currently believe that the adoption of SFAS 123R will have a material adverse effect on our results of operations.

In November 2005, the FASB issued FSP FAS115-1 and FAS124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP FAS 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP FAS 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. We have adopted FSP FAS 115-1 and the adoption of the statement does not have a material impact on our consolidated results or financial condition.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We have established policies and procedures to manage our exposure to fluctuations in interest rates and foreign currency exchange rates.

Interest rate risk. We maintain our funds in money market accounts, corporate bonds, commercial paper, Treasury notes and agency notes. Our exposure to market risk due to fluctuations in interest rates relates primarily to our interest earnings on our cash deposits. These securities are subject to interest rate risk inasmuch as their fair value will fall if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from the levels prevailing as of March 31, 2006, the fair value of the portfolio would not decline by a material amount. We do not use derivative financial instruments to mitigate risks. However, we do have an investment policy that would allow us to invest in short-term and long-term investments such as money market instruments and corporate debt securities. Our policy attempts to reduce such risks by typically limiting the maturity date of such securities to no more than twenty-four months with a maximum average maturity to our whole portfolio of such investments at twelve months, placing our investments with high credit quality issuers and limiting the amount of credit exposure with any one issuer.

Foreign currency exchange rate risk. Our exposure to market risk due to fluctuations in foreign currency exchange rates relates primarily to the intercompany balances with our subsidiaries located in Australia, Canada, China, France, Germany, Hong Kong, India, Japan, the Netherlands, Malaysia, Singapore, South Korea and the United Kingdom. Transaction gains or losses have not been significant in the past, and there is no hedging activity on foreign currencies. Based on our overall currency rate exposure in foreign jurisdictions, a hypothetical 10% change in foreign exchange rates could have a material impact on our financial position, results of operations and cash flows. For instance, if average exchange rates in fiscal year 2006 had changed unfavorably by 10%, our net income would have decreased by approximately $3.0 million. Consequently, we do not expect that a reduction in the value of such accounts denominated in foreign currencies resulting from even a sudden or significant fluctuation in foreign exchange rates would have a direct material impact on our financial position, results of operations or cash flows.

Notwithstanding the foregoing, the direct effects of interest rate and foreign currency exchange rate fluctuations on the value of certain of our investments and accounts, and the indirect effects of fluctuations in foreign currency could have a material adverse effect on our business, financial condition and results of operations. For example, international demand for our products is affected by foreign currency exchange rates. In addition, interest rate fluctuations may affect the buying patterns of our customers. Furthermore, interest rate and currency exchange rate fluctuations have broad influence on the general condition of the U.S. foreign and global economics, which could materially adversely affect our business, financial condition results of operations and cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements are submitted on pages F-1 through F-32 of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), which are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In designing our system of disclosure controls and procedures, our management recognizes that our disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, in designing our system of disclosure controls and procedures, our management is required to apply its judgment in considering the cost-benefit relationship of possible controls and procedures.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of March 31, 2006, which included an evaluation of disclosure controls and procedures applicable to the period covered by this Form 10-K. Based upon that evaluation, and as a result of the material weakness discussed below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2006.

To mitigate the effects of the material weakness described below, we performed additional analyses and other procedures in order to prepare the consolidated financial statements included in this Form 10-K in accordance with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements included in this Form 10-K fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, which is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer and effected by our Board of Directors, management or other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of March 31, 2006, our management assessed the effectiveness of our internal control over financial reporting. In making this assessment, management used the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based on its assessment, management concluded that, as of March 31, 2006, we did not maintain effective controls over the application and monitoring of our accounting for income taxes. Specifically, we did not have controls designed and in place to ensure the accuracy and completeness of deferred income tax assets and liabilities, the deferred tax asset valuation allowance and the related income tax provision (or benefit), and the review and evaluation of the application of generally accepted accounting principles relating to accounting for income taxes. This control deficiency resulted in an audit adjustment, which we recorded in our consolidated financial statements for the fiscal year ended March 31, 2006. Additionally, this control deficiency could result in a material misstatement of the aforementioned accounts that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Because of the material weakness described above, management concluded that our internal control over financial reporting was not effective as of March 31, 2006, based on the criteria in the COSO framework.

Our management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report appearing on page F-1 of this Form 10-K.

Material Weakness Remediation Plans. We intend to implement new controls and procedures related to income tax accounting and reporting. The actions that we intend to take include the following:

- Implement formal procedures to evaluate the continued profitability of each of our subsidiaries on a quarterly basis in order to determine the income tax benefit of reducing the valuation allowances on net operating loss carryforwards and other deferred tax assets.

- Implement formal procedures to monitor net deferred tax assets relating to goodwill and intangible assets of companies that we acquire.

- Evaluate the implementation of a new tax accounting and reporting system and improve our procedures with respect to communicating, documenting, and reconciling the detailed components of income tax assets and liabilities of each of our subsidiaries.

- Expand staffing and resources, including the continued use of external consultants, and provide training on income tax accounting and reporting.

Changes in Internal Control Over Financial Reporting. We made no changes to our internal control over financial reporting during the fourth quarter of the fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Effective June 15, 2006, the Compensation Committee of our Board of Directors approved bonus payments for the quarter ended March 31, 2006, for each of our named executive officers and a bonus plan for our Chief Operating Officer. Information regarding the bonus payments and plan is included in Exhibit 10.9 of this report and incorporated by reference into this Item 9B.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item regarding our directors and executive officers will be set forth in the definitive Proxy Statement for our 2006 Annual Meeting of Stockholders, and is incorporated into this report by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this item regarding executive compensation will be set forth in the definitive Proxy Statement for our 2006 Annual Meeting of Stockholders, and is incorporated into this report by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management and regarding securities authorized for issuance under equity compensation plans will be set forth in the definitive Proxy Statement for our 2006 Annual Meeting of Stockholders, and is incorporated into this report by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item regarding certain relationships and related transactions will be set forth in the definitive Proxy Statement for our 2006 Annual Meeting of Stockholders, and is incorporated into this report by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding fees billed for services rendered by our independent registered public accounting firm and related information will be set forth in the definitive Proxy Statement for our 2006 Annual Meeting of Stockholders, and is incorporated into this report by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) *Financial Statements:* The following documents are filed as part of the report:

(1) Report of Independent Registered Public Accounting Firm

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at March 31, 2006 and 2005	F-3
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended March 31, 2006, 2005 and 2004	F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended March 31, 2006, 2005 and 2004	F-5
Consolidated Statements of Cash Flows for the years ended March 31, 2006, 2005 and 2004	F-6
Notes to Consolidated Financial Statements	F-7

(3) Exhibits

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 22, 2006.

WEBMETHODS, INC.

By: /s/ DAVID MITCHELL

David Mitchell
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby constitutes and appoints each of David Mitchell and Mark L. Wabschall as his attorney-in-fact and agent, with full power of substitution and resubstitution for him in any and all capacities, to sign any or all amendments to this report and to file the same, with exhibits thereto and other documents in connection therewith, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his substitutes may do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ DAVID MITCHELL David Mitchell	President, Chief Executive Officer and Director	June 22, 2006
/s/ MARK L. WABSCHALL Mark L. Wabschall	Chief Financial Officer, Chief Accounting Officer, Executive Vice President, Treasurer	June 22, 2006
/s/ JAMES P. GAUER James P. Gauer	Director	June 22, 2006
/s/ R. JAMES GREEN R. James Green	Director	June 22, 2006
/s/ PETER GYENES Peter Gyenes	Director	June 22, 2006
/s/ WILLIAM A. HALTER William A. Halter	Director	June 22, 2006
/s/ JERRY J. JASINOWSKI Jerry J. Jasinowski	Director	June 22, 2006
/s/ JACK L. LEWIS Jack L. Lewis	Director	June 22, 2006
/s/ VINCENT J. MULLARKEY Vincent J. Mullarkey	Director	June 22, 2006
/s/ GENE RIECHERS Gene Riechers	Director	June 22, 2006
/s/ WILLIAM V. RUSSELL	Non-Executive Chairman of the Board and Director	June 22,

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of webMethods, Inc.:

We have completed integrated audits of webMethods, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of March 31, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of webMethods, Inc. and its subsidiaries at March 31, 2006 and March 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, we have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that webMethods, Inc. did not maintain effective internal control over financial reporting as of March 31, 2006, because the Company did not maintain effective controls over the accounting for income taxes, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment as of March 31, 2006. The Company did not maintain effective controls over the accounting for income taxes. Specifically, they did not have controls designed and in place to ensure the accuracy and completeness of deferred income tax assets and liabilities, the deferred tax asset valuation allowance, and the related income tax provision (benefit) and the review and evaluation of the application of generally accepted accounting principles relating to accounting for income taxes. This control deficiency resulted in an audit adjustment recorded in the 2006 consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the deferred tax assets and liabilities and the related income tax provision that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management's assessment that webMethods, Inc. did not maintain effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, webMethods, Inc. has not maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO.

PricewaterhouseCoopers LLP
McLean, Virginia
June 22, 2006

WEBMETHODS, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2006	March 31, 2005
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 82,371	$ 57,209
Marketable securities available for sale	79,943	78,332
Accounts receivable, net of allowance of $652 and $1,862	64,298	47,326
Deferred income tax assets, net	138	—
Prepaid expenses and other current assets	6,830	6,401
Total current assets	233,580	189,268
Marketable securities available for sale	—	14,513
Property and equipment, net	10,274	10,342
Goodwill	46,704	46,704
Intangible assets, net	5,993	8,390
Long-term deferred income tax assets, net	1,961	—
Other assets	4,299	6,127
Total assets	$ 302,811	$ 275,344
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,323	$ 8,673
Accrued expenses	10,866	16,506
Accrued salaries and commissions	12,694	12,219
Deferred revenue	59,168	43,055
Current portion of capital lease obligations	259	475
Total current liabilities	90,310	80,928
Capital lease obligations, net of current portion	10	139
Other long-term liabilities	3,941	3,374
Long-term deferred revenue	1,772	6,371
Total liabilities	96,033	90,812
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 500,000 shares authorized; 54,479 and 53,347 shares *issued and outstanding*	545	533
Additional paid-in capital	529,972	524,487
Deferred stock compensation and warrant charge	(357)	(2,480)
Accumulated deficit	(322,202)	(340,224)
Accumulated other comprehensive income (loss)	(1,180)	2,216
Total stockholders' equity	206,778	184,532
Total liabilities and stockholders' equity	$ 302,811	$ 275,344

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

WEBMETHODS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year Ended March 31,		
	2006	2005	2004
	(In thousands, except per share amounts)		
Revenue:			
License	$ 87,449	$ 86,800	$ 92,740
Professional services	47,183	49,218	43,634
Maintenance	74,186	64,583	53,167
Total revenue	208,818	200,601	189,541
Cost of revenue:			
Amortization of intangibles	2,397	2,397	1,199
License	1,002	1,252	2,211
Professional services	42,688	43,989	42,308
Maintenance	12,774	12,965	11,205
Total cost of revenue	58,861	60,603	56,923
Gross profit	149,957	139,998	132,618
Operating expenses:			
Sales and marketing	74,084	84,313	94,433
Research and development	40,197	44,518	45,060
General and administrative	23,812	25,042	17,880
Restructuring and other related charges	411	5,849	3,920
In-process research and development	—	—	4,284
Settlement of intellectual property matter	—	—	2,250
Total operating expenses	138,504	159,722	167,827
Operating income (loss)	11,453	(19,724)	(35,209)
Interest income	4,496	2,487	2,851
Interest expense	(82)	(99)	(205)
Other income (expense)	807	(123)	(461)
Impairment of equity investment in private company	—	(1,057)	—
Net income (loss) before taxes	$ 16,674	$ (18,516)	$ (33,024)
Provision for (benefit from) income taxes	(1,348)	235	—
Net income (loss)	$ 18,022	$ (18,751)	$ (33,024)
Basic net income (loss) per share	$ 0.34	$ (0.35)	$ (0.63)
Diluted net income (loss) per share	$ 0.33	$ (0.35)	$ (0.63)
Shares used in computing basic net income (loss) per common share	53,779	53,103	52,137
Shares used in computing diluted net income (loss) per common share	55,045	53,103	52,137
Comprehensive income (loss):			
Net income (loss)	$ 18,022	$ (18,751)	$ (33,024)
Other comprehensive income (loss):			
Unrealized gain (loss) on securities available for sale	199	(496)	(165)
Foreign currency cumulative translation adjustment	(3,595)	459	2,306
Total comprehensive income (loss)	$ 14,626	$ (18,788)	$ (30,883)

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

WEBMETHODS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended March 31, 2004, 2005 and 2006

	Common Stock: Shares	Common Stock: Amount	Additional Paid-In Capital	Deferred Stock Compensation and Warrant Charge	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
				(In thousands)			
Balance, March 31, 2003	51,767	$ 518	$515,828	$ (9,450)	$ (288,449)	$ 112	$218,559
Stock options exercised, net	620	6	3,033	—	—	—	3,039
ESPP common stock issuances	360	3	2,478	—	—	—	2,481
Adjustment of deferred compensation related to forfeitures	—	—	(48)	48	—	—	—
Amortization of deferred warrant charge	—	—	—	2,645	—	—	2,645
Amortization of deferred stock compensation related to restricted stock	—	—	—	132	—	—	132
Compensation charge related to stock option grants to non-employees	—	—	70	—	—	—	70
Compensation charge related to accelerated vesting of stock option grants issued to employees	—	—	94	—	—	—	94
Proceeds from OEM fees applied to deferred warrant charge	—	—	—	1,000	—	—	1,000
Other comprehensive income	—	—	—	—	—	2,141	2,141
Net loss	—	—	—	—	(33,024)	—	(33,024)
Balance, March 31, 2004	52,747	$ 527	$521,455	$ (5,625)	$ (321,473)	$ 2,253	$197,137
Stock options exercised, net	296	3	982	—	—	—	985
ESPP common stock issuances	304	3	1,998	—	—	—	2,001
Amortization of deferred warrant charge	—	—	—	2,645	—	—	2,645
Compensation charge payable in common stock under deferred compensation plan for directors	—	—	52	—	—	—	52
Proceeds from OEM fees applied to deferred warrant charge	—	—	—	500	—	—	500
Other comprehensive income	—	—	—	—	—	(37)	(37)
Net loss	—	—	—	—	(18,751)	—	(18,751)
Balance, March 31, 2005	53,347	$ 533	$524,487	$ (2,480)	$ (340,224)	$ 2,216	$184,532
Stock options exercised, net	854	9	3,584	—	—	—	3,593
ESPP common stock issuances	278	3	1,335	—	—	—	1,338
Amortization of deferred warrant charge	—	—	—	2,480	—	—	2,480
Compensation charge payable in common stock under deferred compensation plan for directors	—	—	96	—	—	—	96
Deferred compensation charge related to stock option grants to employees	—	—	529	(529)	—	—	—
Amortization of deferred stock compensation related to stock options	—	—	—	113	—	—	113
Adjustment of deferred compensation related to forfeitures	—	—	(59)	59	—	—	—
Other comprehensive income	—	—	—	—	—	(3,396)	(3,396)
Net income	—	—	—	—	18,022	—	18,022
Balance, March 31, 2006	54,479	$ 545	$529,972	$ (357)	$ (322,202)	$ (1,180)	$206,778

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

WEBMETHODS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2006	2005	2004
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 18,022	$ (18,751)	$ (33,024)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	5,317	6,343	8,428
Provision for (recovery of) doubtful accounts	(477)	244	19
Impairment of equity investments	—	1,057	—
Amortization of deferred stock compensation related to employee stock options and non-employee stock warrant	2,593	2,645	2,846
Amortization of acquired intangibles	2,397	2,397	1,199
Release of deferred tax valuation allowance	(2,171)	—	—
Write off of in-process research and development	—	—	4,284
Conversion of interest income to equity in private company investments	—	—	(257)
Non cash restructuring and related costs, and other	—	—	473
Amortization of deferred rent	(457)	(200)	—
Stock-based compensation	122	—	—
Increase (decrease) in cash resulting from changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(17,561)	(252)	(534)
Prepaid expenses and other current assets	137	(212)	1,608
Other non-current assets	1,895	1,956	91
Accounts payable	(1,015)	(2,386)	406
Accrued expenses and other liabilities	(4,403)	(1,064)	1,752
Deferred rent	—	3,105	—
Accrued salaries and commissions	707	529	(649)
Deferred revenue	12,936	6,989	(6,650)
Net cash provided by (used in) operating activities	18,042	2,400	(20,008)
Cash flows from investing activities:			
Acquisition of businesses and technology, net of cash acquired	—	—	(32,384)
Purchases of property and equipment	(5,138)	(8,380)	(2,744)
Proceeds from maturities of marketable securities available for sale	90,119	85,258	111,737
Purchases of marketable securities available for sale	(77,018)	(98,115)	(70,463)
Restricted cash	(899)	—	—
Repayments of investments in private companies	—	—	1,000
Net cash provided by (used in) investing activities	7,064	(21,237)	7,146
Cash flows from financing activities:			
Short-term borrowings	—	3,533	5,882
Payments on short-term borrowings	—	(6,080)	(3,561)
Payments on capital leases	(585)	(937)	(3,255)
Proceeds from exercise of stock options	3,562	1,037	3,039
Proceeds from ESPP common stock issuances	1,338	2,002	2,481
Proceeds from OEM fees applied to deferred warrant charge	—	500	1,000
Net cash provided by financing activities	4,315	55	5,586
Effect of the exchange rate on cash and cash equivalents	(4,259)	529	3,036
Net increase (decrease) in cash and cash equivalents	25,162	(18,253)	(4,240)
Cash and cash equivalents at beginning of period	57,209	75,462	79,702
Cash and cash equivalents at end of period	$ 82,371	$ 57,209	$ 75,462

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

WEBMETHODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

webMethods, Inc. is a leading provider of business integration and optimization software. The Company's products and solutions enable its customers to improve the performance of their organizations by implementing and accelerating business process improvements. The Company was incorporated in Delaware on June 12, 1996.

2. Summary of significant accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of webMethods, Inc. and all wholly owned subsidiaries (collectively, the "Company"). All material intercompany accounts and transactions have been eliminated.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current period presentation. These reclassifications have no impact on previously reported net loss or cash flows.

Use of estimates

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

Fair value information

The carrying amount of current assets and current liabilities approximates fair value because of the short maturity of these instruments.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less from date of purchase to be cash equivalents.

Allowance for doubtful accounts

The Company maintains allowances for doubtful accounts for estimated losses which may result from the inability of our customers to make required payments to us. These allowances are established through analysis of the credit-worthiness of each customer with a receivable balance, determined by credit reports from third parties, published or publicly available financial information, customer-specific experience including payment practices and history, inquiries, and other financial information from our customers.

Marketable securities

The Company's marketable securities consist of corporate bonds, commercial paper and U.S. government and agency securities with maturities of less than two years. Securities are classified as available for sale since management intends to hold the securities for an indefinite period and may sell the securities prior to their maturity. The marketable securities are carried at aggregate fair value based generally on quoted market prices. Gains and losses are determined based on the specific identification

2. Summary of significant accounting policies — (Continued)

method. Available for sale securities that are reasonably expected by management to be sold within one year from the balance sheet date are classified as current assets.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. Leasehold improvements are amortized over the shorter of the lease term or their useful life. Leased property or equipment meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on the straight-line method over the term of the lease. Repairs and maintenance are expensed as incurred. At the time of retirement or other disposal of property and equipment, the cost and related accumulated depreciation are removed from their respective accounts and any resulting gain or loss is included in operations.

Included in property and equipment is the cost of internally developed software. In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", eligible internally developed software costs incurred are capitalized subsequent to the completion of the preliminary project stage. After all substantial testing and deployment is completed and the software is ready for its intended use, internally developed software costs are amortized using the straight-line method over the estimated useful life of the software, generally up to three years.

Investments in private companies

Investments in private companies in which the Company owns less than a 20% voting equity interest and has no significant influence are accounted for using the cost method. As of March 31, 2006 and 2005, the investment in a private company had been written off and the carrying value was $0. This private company was also a business partner of the Company. The Company performs periodic reviews of its investment for impairment. The investments in privately held companies are considered impaired when a review of the investees' operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable. Such indicators include, but are not limited to, limited capital resources, limited prospects of receiving additional financing, and prospects for liquidity of the related securities. During fiscal year 2005, the Company recorded other than temporary write-downs of $1,057,000 related to the impairment of the investment in this private company.

Software development costs

Software development costs, which include compensation, employee benefits, professional fees, travel, communications and allocated facilities, recruitment and overhead costs, are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. The Company defines the establishment of technological feasibility as the completion of all planning, designing, coding and testing activities that are necessary to establish products that meet design specifications including functions, features and technical performance requirements. Under the Company's definition, establishing technological feasibility is considered complete after a working model is completed and tested. To date, the period between technological feasibility and general availability has been short, and thus all software development costs qualifying for capitalization are insignificant.

2. Summary of significant accounting policies — (Continued)

Goodwill and acquired intangible assets

The Company accounts for goodwill and acquired intangible assets in accordance with Statement of Financial Accounting Standards No. 142 (SFAS No. 142) "Goodwill and Other Intangible Assets," which eliminated the amortization of goodwill and other intangibles with indefinite lives unless the intangible asset is deemed to be impaired. In accordance with SFAS 142, all of our goodwill is associated with our corporate reporting unit, as we do not have multiple reporting units. In accordance with SFAS No. 142, goodwill is tested for impairment using a two-step process. The first step is to identify a potential impairment and the second step measures the amount of the impairment loss, if any. Goodwill is deemed to be impaired if the carrying amount of the asset exceeds its estimated fair value. The Company performed an impairment test of its goodwill and determined that no impairment of remaining goodwill existed at adoption and at March 31, 2006.

Finite-lived intangible assets are amortized over their useful lives and are subject to impairment tests under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". See *Impairment of long-lived assets* accounting policy below.

Impairment of long-lived assets

The Company periodically evaluates the recoverability of its long-lived assets. This evaluation consists of a comparison of the carrying value of the assets with the assets' expected future cash flows, undiscounted and without interest costs. Estimates of expected future cash flows represent management's best estimate based on reasonable and supportable assumptions and projections. If the expected future cash flows, undiscounted and without interest charges, exceed the carrying value of the asset, no impairment is recognized. Impairment losses are measured as the difference between the carrying value of long-lived assets and their fair value, based on discounted future cash flows of the related asset.

Income taxes

The Company is subject to federal, state and local income taxes in many foreign countries and recognizes deferred taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Temporary differences are primarily the result of the differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Comprehensive Income (Loss)

Total comprehensive income (loss) consists of unrealized gains and losses on securities available for sale and foreign currency cumulative translation adjustments.

2. Summary of significant accounting policies — (Continued)

Total accumulated other comprehensive income (loss) is displayed as a separate component of stockholders' equity. The accumulated balances for each component of other comprehensive income (loss) consist of the following (in thousands):

	Unrealized Gain (Loss) on Securities Available for Sale	Foreign Currency Cumulative Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance as of March 31, 2003	$ (155)	$ 267	$ 112
Change during year	(165)	2,306	2,141
Balance as of March 31, 2004	(320)	2,573	2,253
Change during year	(496)	459	(37)
Balance as of March 31, 2005	(816)	3,032	2,216
Change during year	199	(3,595)	(3,396)
Balance as of March 31, 2006	$ (617)	$ (563)	$ (1,180)

Foreign currency translations

The functional currency for the Company's foreign subsidiaries is the local currency. Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date; revenue and expenses are translated using the average exchange rates in effect during the period. The cumulative translation adjustments are included in accumulated other comprehensive income or loss, which is a separate component of stockholders' equity. Foreign currency transaction gains or losses are included in the results of operations.

Revenue recognition

The Company enters into arrangements, which may include the sale of software licenses, professional services and maintenance or various combinations of each element. The Company recognizes revenue based on SOP 97-2, "Software Revenue Recognition," as amended, and modified by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions", SEC Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition", and other authoritative accounting literature. SOP 98-9 modified SOP 97-2 by requiring revenue to be recognized using the "residual method" if certain conditions are met. Revenues are recognized based on the residual method when an agreement has been signed by both parties, the fees are fixed or determinable, collection of the fees is reasonably assured, delivery of the product has occurred and no other significant obligations remain. Historically, the Company has not experienced significant returns or offered exchanges of its products. Revenue on shipments to resellers is recognized when the products are sold by the resellers to an end-user customer. Provided that all other revenue criteria are met, fees from OEM customers are generally recognized upon delivery and ongoing royalty fees are generally recognized upon reported units shipped.

For multi-element arrangements, each element of the arrangement is analyzed and the Company allocates a portion of the total fee under the arrangement to the undelivered elements, such as professional services, training and maintenance. Revenue allocated to the undelivered elements is deferred using vendor-specific objective evidence of fair value of the elements and the remaining portion of the fee is allocated to the delivered elements (generally the software license), under the residual method. Vendor-specific objective evidence of fair value is based on the price the customer is required to pay when the element is sold separately (i.e. hourly time and material rates charged for consulting services when sold

2. Summary of significant accounting policies — (Continued)

separately from a software license and the optional renewal rates charged by the Company for maintenance arrangements).

For electronic delivery, the product is considered to have been delivered when the access code to download the software from the Company's web site and activation key, as applicable, has been provided to the customer. If an element of the license agreement has not been delivered, revenue for the element is deferred based on its vendor-specific objective evidence of fair value. If vendor-specific objective evidence of fair value does not exist, all revenue is deferred until sufficient objective evidence exists or all elements have been delivered.

If the fee due from the customer is not fixed or determinable, revenue is recognized as payments become due. If collectibility is not considered probable, revenue is recognized when the fee is collected.

License revenue: Amounts allocated to license revenue under the residual method are recognized at the time of delivery of the software when vendor-specific objective evidence of fair value exists for the undelivered elements, if any, and all the other revenue recognition criteria discussed above have been met.

Professional services revenue: Revenue from professional services is comprised of consulting, implementation services and training. Consulting services include services such as installation and building non-complex interfaces to allow the software to operate in customized environments. Services are generally separable from the other elements under the arrangement since the performance of the services is not essential to the functionality (i.e. the services do not involve significant production, modification or customization of the software or building complex interfaces) of any other element of the transaction. Generally, consulting and implementation services are sold on a time-and-materials basis and revenue is recognized when the services are performed. Contracts with fixed or not to exceed fees are recognized on a percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for professional services, revenue is deferred until the uncertainty is sufficiently resolved. Revenue for training is recognized when the services are performed.

Maintenance revenue: Maintenance revenue consists primarily of fees for providing when-and-if-available unspecified software upgrades and technical support over a specified term. Maintenance revenue is recognized on a straight-line basis over the term of the contract.

Stock-based compensation

The Company measures compensation expense for its employee stock-based compensation using the intrinsic value method and provides pro forma disclosures of net income (loss) as if the fair value method had been applied in measuring compensation expense. Under the intrinsic value method of accounting for stock-based compensation, when the exercise price of options granted to employees is less than the fair value of the underlying stock on the grant date, compensation expense is recognized over the applicable vesting period.

2. Summary of significant accounting policies — (Continued)

The following table summarizes the Company's results on a pro forma basis as if it had recorded compensation expense based upon the fair value at the grant date for awards consistent with the methodology prescribed in SFAS 123, "Accounting for Stock-Based Compensation," for the years ended March 31, 2006, 2005 and 2004 (in thousands, except per share amounts):

	Year Ended March 31,		
	2006	2005	2004
Net income (loss), as reported	$ 18,022	$ (18,751)	$ (33,024)
Add: Stock-based compensation expense determined under intrinsic value method	113	—	202
Less: Stock-based compensation expense determined under fair value method	(28,592)	(31,233)	(51,084)
Net income (loss), pro forma	$ (10,457)	$ (49,984)	$ (83,906)
Basic net income (loss) per common share, as reported	$ .34	$ (0.35)	$ (0.63)
Basic net income (loss) per common share, pro forma	$ (.19)	$ (0.94)	$ (1.61)
Diluted net income (loss) per common share, as reported	$ .33	$ (0.35)	$ (0.63)
Diluted net income (loss) per common share, pro forma	$ (.19)	$ (0.94)	$ (1.61)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

	Employee Stock Option Plans March 31,			Employee Stock Purchase Plan March 31,		
	2006	2005	2004	2006	2005	2004
Expected volatility	73%	85%	95%	54%	62%	68%
Risk-free interest rate	4.1%	3.8%	2.9%	4.1%	3.1%	2.9%
Expected life (years)	4	4	4	1.2	1.3	1
Expected dividend yield	0%	0%	0%	0%	0%	0%

The weighted average fair value per share for stock option grants that were awarded during the years ended March 31, 2006, 2005 and 2004 was $3.57, $4.84 and $6.15, respectively.

On December 16, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of vesting of all outstanding, unvested and "out-of-the-money" stock options of the Company previously granted to employees, consultants or directors of the Company prior to September 30, 2005 with an exercise price higher than the closing price of the Company's Common Stock on December 16, 2005, which was $7.53. The acceleration of such options was effective as of December 16, 2005, provided that the holder of such options was an employee, consultant or director of the Company on such date. The total number of options accelerated was 2,172,180. The decision to accelerate the vesting of these options was made primarily to eliminate future compensation expense attributable to these options, which otherwise would have been expensed beginning on April 1, 2006 as a result of the adoption of SFAS No. 123R, "Share-Based Payment." In the above table, the pro forma stock-based compensation expense determined under the fair value method for the year ended March 31, 2006 reflects approximately $13.0 million attributable to the acceleration of the vesting of these options. The acceleration will allow the Company to forego approximately $11.2 million of stock compensation expense in future operating results commencing in the first fiscal quarter of 2007 when SFAS No. 123R is implemented.

1400034405

AJS000261

2. Summary of significant accounting policies — (Continued)

In December 2004, FASB issued SFAS No. 123R, "Share-Based Payment (Revised 2004)", which replaces SFAS No. 123 and supersedes APB 25. For the first quarter of fiscal year 2007, we will be required to adopt SFAS No. 123R and measure all employee share-based compensation awards using a fair value based method and record the share-based compensation expenses in our consolidated statements of operations if the requisite service to earn the award is provided. The above disclosed pro forma results and assumptions used in fiscal years 2006, 2005 and 2004 were based solely on historical volatility of our common stock over the most recent period commensurate with the estimated expected life of our stock options, and may not be indicative of the effect for future periods or years after adoption of SFAS No. 123R. We are currently evaluating the impact of the adoption of SFAS No. 123R on our financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards. However, we currently believe that the adoption of SFAS No. 123R will have a material adverse effect on our results of operations.

Stock-based compensation to non-employees and warrant charge

The Company measures expense for its non-employee stock-based compensation and warrant charge using the fair value method. Under the fair value method, the fair value of each option or warrant is estimated on the date of the grant using the Black-Scholes valuation model with the following weighted average assumptions: risk-free interest rate at the date of grant, expected life of the instrument, expected dividends and volatility at the date of the grant. The risk-free interest rate and the volatility are based on the expected term of the instrument.

Net income (loss) per share

Basic income (loss) per share is based on the weighted average number of outstanding shares of common stock of webMethods, Inc. Diluted income per share adjusts the weighted average for the potential dilution that could occur if stock options or warrants or convertible securities were exercised or converted into common stock of webMethods, Inc. Diluted income (loss) per share is the same as basic loss per share for fiscal years 2005 and 2004 because the effects of such items were anti-dilutive given the Company's losses. Certain potential common shares were not included in computing net income per share because their effect was anti-dilutive.

Segment reporting

The Company operates in a single reportable segment of business integration and optimization software and related services. The Company will evaluate additional segment disclosure requirements as it expands its operations. See Note 20 for required geographic disclosure.

Guarantees and Indemnification

The Company accounts for guarantee and indemnification arrangements in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" which requires that the Company recognize the fair value for guarantee and indemnification arrangements. The Company continues to monitor the conditions that are subject to the guarantees and indemnifications, as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If the Company determines it is probable that a loss has occurred, then any such estimable loss would be recognized under those guarantees and indemnifications. Some of the software licenses granted by the Company contain provisions that indemnify licensees of the Company's software from damages and costs resulting from claims alleging that the

2. Summary of significant accounting policies — (Continued)

Company's software infringes the intellectual property rights of a third party. The Company has historically received only a limited number of requests for indemnification under these provisions, and has not been required to make material payments pursuant to these provisions. Accordingly, the Company has not recorded a liability related to these indemnification provisions. The Company does not have any guarantees or indemnification arrangements other than the indemnification clause in some of its software licenses, indemnification agreements with the Company's directors and executive officers and certain guarantees of performance by subsidiaries.

Recent accounting pronouncements

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment (Revised 2004)," which replaces SFAS No. 123 and supersedes APB 25. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107, providing supplemental implementation guidance for SFAS 123R. These pronouncements set forth accounting requirements for "share-based" compensation to employees and require companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation. The Company currently provides pro forma disclosure of the effect on net income or loss and earnings or loss per share of the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation." Under SFAS 123R, such pro forma disclosure will no longer be an alternative to financial statement recognition. SFAS 123R is effective for annual periods beginning after June 15, 2005 and, accordingly, the Company must adopt the new accounting provisions effective April 1, 2006 and recognize the cost of all share-based payments to employees, including stock option grants, in the income statement based on their fair values. The Company is currently evaluating the impact of the adoption of SFAS 123R on our financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards. However, we currently believe that the adoption of SFAS 123R will have a material adverse effect on our results of operations.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP FAS 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP FAS 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. We have adopted FSP FAS 115-1 and the adoption of the statement does not have a material impact on our consolidated results or financial condition.

3. Related-party transactions

An individual who is a director and stockholder and former corporate secretary of the Company is associated with a law firm that has rendered various legal services for the Company. For the years ended March 31, 2006, 2005 and 2004, the Company has paid the firm approximately $1,789,000, $1,189,000 and $1,421,000, respectively. As of March 31, 2006 and 2005, the aggregate amounts in trade accounts payable for these services was approximately $0 and $0, respectively.

4. Investments in private company

In April 2000, the Company made an investment in a third party totaling $2,000,000, of which $1,000,000 was equity and $1,000,000 was convertible debt. The Company and this third-party share a common Board member. In March 2002, the Company recorded an other-than-temporary decline in value

4. Investments in private companies — (Continued)

of $200,000 in the equity investment. In June 2003, the Company received $1,000,000 in repayment of the convertible debt and converted $257,000 of interest income into additional equity. In September 2004, the Company recorded an other-than-temporary decline in value of $1,057,000 in this equity investment. As of March 31, 2006 and 2005, the carrying value of the investment in this third-party was $0. The third party was a business partner of the Company, and the Company incurred royalty expense of $0, $56,000 and $1,391,000 to this third-party in the years ended March 31, 2006, 2005 and 2004, respectively.

5. Concentrations of credit risk

Financial instruments, which potentially expose the Company to concentration of credit risk, consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains its cash and cash equivalents in bank accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts. Accounts receivable consists principally of amounts due from large, credit-worthy companies. The Company monitors the balances of individual accounts to assess any collectibility issues.

6. Marketable securities

The cost and estimated fair value of marketable securities, which consist of corporate bonds, commercial paper and US government and agency securities, by contractual maturity are as follows:

	Purchase/ Amortized Cost	Gross Unrealized Losses	Aggregate Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
			(In thousands)			
As of March 31, 2006						
Taxable municipal auction rate securities	$ 9,850	$ —	$ 9,850	$ —	$ 9,850	$ —
Corporate bonds	82,217	(163)	82,054	11,961	70,093	—
Money market funds	30,137	—	30,137	30,137	—	—
Total	$ 122,204	$ (163)	$ 122,041	$ 42,098	$ 79,943	$ —

	Purchase/ Amortized Cost	Gross Unrealized Losses	Aggregate Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
			(In thousands)			
As of March 31, 2005						
Taxable municipal auction rate securities	$ 9,600	$ —	$ 9,600	$ —	$ 9,600	$ —
US Treasury obligations and direct obligations of US government agencies	1,008	(2)	1,006	—	1,006	—
Corporate bonds	87,850	(360)	87,490	5,251	67,726	14,513
Money market funds	22	—	22	22	—	—
Total	$ 98,480	$ (362)	$ 98,118	$ 5,273	$ 78,332	$ 14,513

There were no net realized gains (losses) on short-term or long-term investments for the years ended March 31, 2006 and 2005.

6. Marketable securities — (Continued)

The Company monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. In order to determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the Company's financial condition and business outlook, current market conditions and future trends in the Company's industry; the Company's relative competitive position within the industry; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

In accordance with FASB Staff Position Nos. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," the following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2006.

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(In thousands)			
Corporate bonds	$ 55,848	$ (138)	$ 14,245	$ (25)	$ 70,093	$ (163)

The unrealized losses on the Company's investments in corporate bonds were caused by rising interest rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because we have the ability to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired as of March 31, 2006.

As of March 31, 2006 and 2005, the Company had $903,000 and $0 of restricted cash, relating to deposits held by financial institutions to support guarantees that they have made on behalf of the Company for certain lease and other future payment obligations. As of March 31, 2006, $679,000 of restricted cash is included in prepaid expenses and other current assets and $224,000 of restricted cash is included in other assets.

7. Accounts receivable and allowances for doubtful accounts and returns

Accounts receivable and allowance for doubtful accounts and returns consisted of the following:

	March 31, 2006	March 31, 2005
	(In thousands)	
Accounts receivable	$ 62,926	$ 47,781
Unbilled services	2,024	1,407
Less: Allowances for doubtful accounts and returns	(652)	(1,862)
Net accounts receivable	$ 64,298	$ 47,326

Trade accounts receivable are recorded at invoiced or to be invoiced amounts and do not bear interest. We perform ongoing credit evaluations of our customers' financial condition. Allowances for doubtful accounts and returns were established based on various factors including credit profiles of our customers, contractual terms and conditions, historical payments and current economic trends.

7. Accounts receivable and allowances for doubtful accounts and returns — (Continued)

The following is a summary of activities in allowances for doubtful accounts and returns for the years ended March 31, 2004, 2005 and 2006:

	Balance at Beginning of Period	(Recovery of) Provisions for	Deductions	Balance at End of Period
		(In thousands)		
Year ended March 31, 2004 allowance for doubtful accounts	$ 2,850	$ 19	$ 766	$ 2,103
Year ended March 31, 2005 allowance for doubtful accounts	2,103	233	474	1,862
Year ended March 31, 2006 allowance for doubtful accounts	1,862	(475)	735	652

8. Property and equipment

Property and equipment consisted of the following:

	March 31, 2006	March 31, 2005
	(In thousands)	
Equipment	$ 16,916	$ 16,593
Software	10,840	8,824
Furniture	3,677	4,146
Leasehold improvements	5,346	5,450
	36,779	35,013
Accumulated depreciation and amortization	(26,505)	(24,671)
	$ 10,274	$ 10,342

During the years ended March 31, 2006 and 2005, the Company had acquired certain equipment under capital leases. Assets under capital leases included in equipment as of March 31, 2006 and 2005 are $1,208,000 and $1,889,000, respectively. Related to these capital leases and included in the accumulated depreciation and amortization is $908,000 and $1,243,000 at March 31, 2006 and 2005, respectively.

During the years ended March 31, 2006, and 2005, the Company paid $232,000 and $514,000, respectively for equipment that was previously leased and fully depreciated. This purchase occurred upon termination of the lease period.

9. Income taxes

The components of federal, state and foreign income tax expense (benefit) are summarized as follows:

	2006	2005	2004
		(In thousands)	
Current tax provision:			
Federal	$ 36	$ —	$ —
State	2	—	—
Foreign	757	235	—
Total current	795	235	—
Deferred tax provision:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	(2,143)	—	—
Total deferred	(2,143)	—	—
Total provision for income taxes	$ (1,348)	$ 235	$ —

The U.S. and international components of income (loss) before income taxes are as follows:

	2006	2005	2004
		(In thousands)	
United States	$14,881	$ (20,877)	$ (24,946)
International	1,793	2,361	(8,078)
Total	16,674	(18,516)	(33,024)

Net operating loss carryforwards (NOLs) for the United States corporate federal income tax purposes as of March 31, 2006 are approximately $164 million, and NOL carryforwards relating to foreign subsidiaries are approximately $33 million. The United States NOL carryforwards will begin to expire in 2011. Research and development credit carryforwards as of March 31, 2006 are $11 million and will begin to expire in 2012. Charitable contribution carryforwards as of March 31, 2006 are $396,000 and will begin to expire in 2006.

The realization of benefits of the NOLs, research and development credits and charitable contributions are dependent on sufficient taxable income in future years. Lack of future earnings, a change in the ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize the NOLs, research and development credits and charitable contributions.

9. *Income taxes — (Continued)*

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	Year Ended March 31,	
	2006	2005
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 72,734	$ 98,618
Amortization of research and development costs	20,856	—
Research and development credit	11,024	9,783
Stock option compensation	9,364	8,475
Amortizable intangibles	8,408	10,981
Deferred revenue	1,719	1,363
Accrued expenses	1,334	1,592
Accounts receivable	1,352	416
Deferred rent	1,249	—
Property and equipment	1,042	589
Impairment loss in equity investments	—	2,751
Other	496	—
Total deferred tax assets	129,578	134,568
Deferred tax liabilities:		
Purchased intangibles	(2,310)	(2,882)
Other	—	(581)
Total deferred tax liabilities	(2,310)	(3,463)
Net deferred tax assets	127,268	131,105
Valuation allowance	(125,169)	(131,105)
Net deferred tax assets	$ 2,099	$ —

The recognition of deferred tax assets is recorded when the realization of such assets is more likely than not and is primarily dependent on future taxable income. The Company had provided a full valuation allowance against its net deferred tax assets as of March 31, 2005, based on a number of factors, which included the Company's historical operating performance and the reported cumulative net losses in prior years. During the year ended March 31, 2006, the Company recorded an income tax benefit of $1.3 million, which included a $2.1 million reduction of valuation allowance on net operating loss carryforwards and other deferred tax assets in the Australian subsidiary that continued to demonstrate profitability. The valuation allowance decreased during the year ended March 31, 2006 by $5.9 million due primarily to the $2.1 million reduction in the valuation allowance for Australia, and changes in net operating loss carryforwards, amortization of research and development costs, impairment loss in equity investments and other changes in deferred asset balances. The Company elected to capitalize and amortize research expenditures over 60 months under Section 59(e) of the Internal Revenue Code. This election was made retroactively to the fiscal year ended March 31, 2002. Capitalizing and amortizing research expenditures, rather than deducting them currently, caused a reduction in the Company's deductions for

3760634404 1

9. **Income taxes — (Continued)**

those expenses in the years affected by the election under Section 59(e) and a corresponding reduction in the Company's net operating loss carryforwards. The capitalization of these research expenses also created a deferred tax asset that will be recognized in the future as those capitalized expenditures are amortized. The valuation allowance increased by $6.3 million and $28.5 million for the years ended March 31, 2005 and 2004, respectively. These increases were due primarily to changes in net operating loss carryforwards, acquired intangibles, research and development tax credits, deferred revenue and accrued expenses.

The provision for income taxes differs from the amount of taxes determined by applying the U.S. Federal statutory rate to income before taxes as a result of the following:

	Year Ended March 31,		
	2006	2005	2004
U.S. Federal statutory tax rate	34.0%	(34.0)%	(34.0)%
State and local taxes, net of Federal income tax benefit	3.2	(3.7)	(3.1)
Non-deductible items	5.7	2.2	1.1
Withholding and other foreign tax expense	2.6	—	—
Change in valuation allowance	(48.1)	44.0	44.5
Foreign rate differential	(2.0)	—	(3.2)
Change in general business credit	(8.1)	(7.5)	(5.3)
Change in state income tax rates	4.6	—	—
Income tax provision	(8.1)%	1.0%	—%

10. **Net Income (Loss) Per Share**

The Company's basic net income or loss per share calculation is computed by dividing net income or loss for the period by the weighted-average number of common stock shares outstanding. Diluted net income per share is computed by dividing the net income for the period by the weighted-average number of common stock shares and potential common stock equivalents upon the exercise of options or warrants that were outstanding during the period if their effect is dilutive. Certain potential common stock equivalents were not included in computing net income per share because their effect was anti-dilutive.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Year Ended March 31,		
	2006	2005	2004
		(In thousands)	
Net income (loss)	$ 18,022	$ (18,751)	$ (33,024)
Weighted-average common stock shares used to compute basic net income (loss) per share	53,779	53,103	52,137
Effect of dilutive common stock equivalents	1,266	—	—
Weighted-average common stock shares used in computing diluted net income per common share	55,045	53,103	52,137
Basic net income (loss) per share	$ 0.34	$ (0.35)	$ (0.63)
Diluted net income (loss) per share	$ 0.33	$ (0.35)	$ (0.63)

10. Net Income (Loss) Per Share — (Continued)

The following potential common stock equivalents were not included in the diluted net income per share calculations above because their effect was anti-dilutive for the years indicated:

	Year Ended March 31,		
	2006	2005	2004
		(In thousands)	
Anti-dilutive weighted-average common stock shares	12,892	19,010	18,039

11. Borrowings

The Company has a line of credit agreement with a bank to borrow up to a maximum principal amount of $20 million and a $2 million equipment line of credit facility. Both facilities have a maturity date of June 29, 2006.

The Company may borrow the entire $20 million operating line of credit as long as the aggregate balances of cash and cash equivalents on deposit with financial institutions in the United States and marketable securities trading on a national exchange are at least $85 million; otherwise, borrowings under this facility are limited to 80% of eligible accounts receivable. Interest is payable on any unpaid principal balnace at the bank's prime rate. Borrowings under the equipment line of credit will bear interest at a fixed 8% rate or prime plus 1%, at the Company's option and will be repaid over 36 months. The agreement for both facilities include restrictive covenants which require the Company to maintain, among other things, a ratio of quick assets (as defined in the agreement) to current liabilities, excluding deferred revenue, of at least 1.5 to 1.0 and a quarterly revenue covenant such that total revenue for each fiscal quarter must be at least $45 million. At March 31, 2006, the Company was in compliance with these covenants.

As of March 31, 2006, the Company had not borrowed against the operating line of credit or the equipment line of credit. In connection with the operating line of credit agreement, the Company has obtained letters of credit totaling approximately $2.5 million related to office leases. As of March 31, 2006, the Company had $17.4 million available under the operating line of credit and $2.0 million available under the equipment line of credit.

12. Lease commitments

The Company has an equipment line of credit with a leasing company for the leasing of equipment and software. Under this arrangement, the Company can enter into leases for equipment and software for a period of one year from the date of the arrangement. The interest rate under these leases is fixed at the date of each individual lease, based on the 36-month treasury yield plus 3.7%. Principal and interest is payable under each lease in 36 monthly installments. At expiration of the lease term, the Company will have the option to purchase the equipment at fair market value. This arrangement includes a restrictive covenant that requires the Company to maintain a minimum of $2,500,000 of cash and marketable securities. The Company has another equipment line of credit with another leasing company for the leasing of equipment and software. Under this arrangement, the Company can enter into leases for equipment and software for a period of one year from the date of the arrangement. The interest rate under these leases is fixed at the date of each individual lease at an interest rate of 5.95%. Principal and interest is payable under each lease in 24 monthly installments. At expiration of the lease term, the Company will have the option to purchase the equipment at fair market value.

12. Lease commitments — (Continued)

The Company leases office space in various locations under operating leases expiring through fiscal year 2016. Total rent expense was approximately $8,792,000, $10,270,000 and $10,287,000 for the years ended March 31, 2006, 2005 and 2004, respectively.

Future minimum lease payments under the Company's capital and operating leases are as follows:

	Operating	Capital
	(In thousands)	
Years ending March 31, 2007	$ 11,562	$ 264
2008	7,926	10
2009	4,612	—
2010	4,279	—
2011	4,338	—
Thereafter	18,131	—
	$ 50,848	$ 274
Less amounts representing interest		(5)
		269
Less current portion		(259)
Capital lease obligation, net of current portion		$ 10

13. Stockholders' equity

Preferred stock

The Company's Certificate of Incorporation, as amended, includes 50,000,000 authorized shares of undesignated preferred stock with a par value of $.01, none of which were outstanding as of March 31, 2006.

Warrant

In March 2001, the Company entered into an Integrated Reseller and OEM Agreement with i2 Technologies (i2). The OEM portion of the agreement provided i2 a non-exclusive and non-transferable right to embed and integrate certain Company products as part of i2's product offerings and to provide a hosted version of the Company's product offerings. i2 agreed to pay $10 million for these rights on a fixed schedule over the four-year term of the agreement. The Company has recorded no revenue for the payments associated with the OEM portion of the agreement. All amounts received by the Company under the OEM portion of the agreement have been recorded as a reduction to the deferred warrant charge, as described below. The Company received $0, $500,000 and $1,000,000 of OEM fees from i2 during the years ended March 31, 2006, 2005 and 2004, respectively.

In connection with the OEM portion of the agreement, the Company also issued to i2 a warrant to purchase 750,000 shares of the Company's common stock at an exercise price of $40.88 per share. The fair value of the warrant based on the Black-Scholes valuation model was $23,606,000 on the date of issuance which has been recorded as a deferred warrant charge. In April 2001, the Company signed an amended warrant agreement which reduced the number of shares of common stock i2 can purchase under the warrant from 750,000 to 710,000 and, in addition, reduced the exercise price per share from $40.88 to $28.70. Based on the remeasurement of the warrant using the Black-Scholes valuation model, the fair

13. Stockholders' equity — (Continued)

value of the amended warrant did not exceed the current fair value of the original warrant. Accordingly, the Company did not incur an additional charge as a result of this amendment. The fair value of the warrant granted to i2 was estimated, on the date of grant and amendment, using the following weighted average assumptions or range of weighted average assumptions: risk-free interest rate of 4.9%, term of 3.75 to 4 years, volatility of 114% to 159%, and no dividends anticipated. As of March 31, 2006, 710,000 warrants remained outstanding with a remaining life of approximately one year.

In March 2003, the agreement was modified to reduce the amount payable to webMethods under the OEM portion of the agreement from $10,000,000 payable over four years to $8,750,000 payable over five years. In addition, the number of resources committed by webMethods to i2 was reduced and the fee previously due to i2 on certain maintenance arrangements was eliminated. Due to this change in the agreement, the amortization of the remaining unamortized deferred warrant charge was changed from four years to five years to coincide with the new payment schedule, resulting in a decrease in the annual amortization. The Company recorded $2,480,000, $2,645,000 and $2,645,000 of amortization of the deferred warrant charge to sales and marketing expense for the years ending March 31, 2006, 2005 and 2004, respectively

14. Business combinations

Business acquisitions

In October 2003, the Company completed the business acquisitions of The Mind Electric, Inc. ("TME") and The Dante Group, Inc. TME was a provider of software for service oriented architectures, and The Dante Group was a provider of business activity monitoring software.

The acquisitions of TME and The Dante Group were accounted for under the purchase method of accounting and, accordingly, the results of operations of each acquisition are included in the Company's financial statements from the date of acquisition. As a result of these acquisitions, the Company has recorded charges for in-process research and development and has recorded assets related to existing technology.

In-process research and development represents in-process technology that, as of the date of the acquisition, had not reached technological feasibility and had no alternative future use. Based on valuation assessments, the value of these projects was determined by estimating the projected net cash flows from the sale of the completed products, reduced by the portion of the revenue attributable to developed technology. The resulting cash flows were then discounted back to their present values at appropriate discount rates. Consideration was given to the stage of completion, complexity of the work completed to date, the difficulty of completing the remaining development and the costs already incurred. The amounts allocated to the acquired in-process research and development were immediately expensed in the period the acquisition was completed.

Existing technology represents purchased technology for which development had been completed as of the date of acquisition. This amount was determined using the income approach. This method consisted of estimating future net cash flows attributable to existing technology for a discrete projection period and discounting the net cash flows to their present value. The existing technology will be amortized over its expected useful life of 60 months.

14. Business combinations — (Continued)

The aggregate purchase price for these acquisitions, including $593,000 in direct acquisition costs, has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition as follows (in thousands):

	The Dante Group	TME	Total
Cash and cash equivalents	$ 90	$ 3	$ 93
Accounts receivable	69	116	185
Property and equipment	146	31	177
Other assets	93	7	100
Accounts payable	(32)	(580)	(612)
Accrued expenses and other liabilities	(231)	(230)	(461)
Deferred revenue	(138)	(38)	(176)
In-process research and development	3,138	1,146	4,284
Existing technology	3,530	2,379	5,909
Customer relationships	392	441	833
Goodwill	12,152	4,715	16,867
Total cash purchase price	$ 19,209	$7,990	$27,199

We determined the valuation of the identifiable intangible assets using the income approach. The amounts allocated to the identifiable intangible assets were determined through established valuation techniques accepted in the technology and software industries.

The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing the other identifiable intangible assets. Key assumptions included discount factors ranging from 26% to 31%, and estimates of revenue growth, maintenance renewal rates, cost of sales, operating expenses and taxes. The purchase price in excess of the net liabilities assumed and the identifiable intangible assets acquired was allocated to goodwill.

The following unaudited pro forma supplemental table presents selected financial information as though the purchases of TME and The Dante Group, which may be material acquisitions for this purpose, had been completed at the beginning of the periods presented. The unaudited pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles, reduction in interest income on cash paid for the acquisitions and the elimination of the charge for acquired in-process research and development. The unaudited pro forma data for the year ended March 31, 2004, includes a $1.4 million nonrecurring compensation charge for accelerated vesting of options of The Dante Group which occurred just prior to the transaction. These unaudited pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the

14. Business combinations — (Continued)

acquisitions occurred as of the beginning of the period presented or that may be obtained in the future (in thousands, except per share data):

	Year Ended March 31, 2004
	(Unaudited)
Pro forma net revenue	$ 190,083
Pro forma net loss	(35,355)
Pro forma net loss per basic and diluted share	$ (0.68)

Acquisition of technology

In October 2003, the Company acquired the portal solution technology and certain fixed assets of DataChannel from Netegrity for $5,278,000 in cash, including $176,000 in direct acquisition costs. The Company also assumed deferred revenue of $66,000 related to on-going maintenance contracts.

The acquisition of the existing portal solution technology of $5,243,000 was recorded as purchased technology and is amortized over the estimated useful life of 60 months. The technology is expected to complement the Company's existing technology and the incremental efforts required to market the portal solution product were minimal. The Company determined that as of the date of the technology purchase the purchased technology had alternative future use and had attained technological feasibility.

15. Goodwill and intangible assets

In accordance with SFAS 142, all goodwill is associated with the Company's corporate reporting unit, as the Company does not have multiple reporting units. Accordingly, on an annual basis the Company performs the impairment assessment required under SFAS 142 at the enterprise level, using the Company's total market capitalization to assess the fair value to the enterprise. The Company performed an impairment test of it's goodwill and determined that no impairment of remaining goodwill existed as of March 31, 2006 or March 31, 2005.

There were no changes in the carrying amount of goodwill for the years ended March 31, 2006 and 2005 and the amount of goodwill as of March 31, 2006 and 2005 was $46.7 million.

As of March 31, 2006 and 2005, all of our acquired intangible assets are subject to amortization. The following is a summary of amortized acquired intangible assets for the dates indicated (in thousands):

	As of March 31, 2006			As of March 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology	$ 11,152	$ 5,572	$ 5,580	$ 11,152	$ 3,342	$ 7,810
Customer relationships	833	420	413	833	253	580
Total	$ 11,985	$ 5,992	$ 5,993	$ 11,985	$ 3,595	$ 8,390

15. **Goodwill and intangible assets — (Continued)**

Amortization expense for intangible assets was $2,397,000, $2,397,000 and $1,199,000 for the years ended March 31, 2006, 2005 and 2004, respectively. Estimated future amortization expense of intangible assets as of March 31, 2006, is as follows (in thousands):

2007	$ 2,397
2008	2,397
2009	1,199
	$ 5,993

16. **Stock based compensation**

Stock incentive plan

On November 1, 1996, the Company adopted the webMethods, Inc. Stock Option Plan (the "Plan"). The Plan is administered by a Committee appointed by the Board of Directors, which has the authority to determine which officers, directors and key employees are awarded options pursuant to the Plan and to determine the terms and option exercise prices of the stock options.

In August 2000, the Company increased the number of shares to 20,731,000 shares of webMethods, Inc. common stock for issuance upon the exercise of options granted under the Plan. Pursuant to an amendment to the Plan adopted by the Board of Directors on June 6, 2001, and approved by the stockholders of webMethods, Inc. on September 7, 2001, the number of shares of webMethods, Inc. common stock available for issuance under the Plan was increased on each of April 1, 2003, 2004 and 2005 by 2,462,195. In addition, the number of shares of webMethods, Inc. common stock available for issuance under the Plan increased by the same amount on April 1, 2006. At March 31, 2006, options to purchase 18,198,486 shares were outstanding.

Stock options granted pursuant to the plans have an exercise price equal to the market price of the underlying common stock at the date of grant, generally vest ratably over three or four years after the date of award and generally have a term of ten years.

16. Stock based compensation — (Continued)

The following table summarizes the Company's activity for all of its stock option awards:

	Stock Options	Range of Exercise Price		Weighted Average Exercise Price
Outstanding, March 31, 2003	15,830,002	$0.11 –	$161.29	$ 18.49
Granted	5,598,215	7.54 –	11.70	9.00
Exercised	(620,216)	0.11 –	9.08	4.90
Cancelled	(4,016,541)	2.88 –	161.29	20.44
Outstanding, March 31, 2004	16,791,460	$0.11 –	$161.29	$ 15.30
Granted	6,704,952	3.99 –	10.55	7.65
Exercised	(295,939)	0.11 –	8.79	3.33
Cancelled	(5,543,457)	3.99 –	161.29	14.88
Outstanding, March 31, 2005	17,657,016	$0.11 –	$115.75	$ 12.73
Granted	6,863,079	$4.60 –	8.25	6.25
Exercised	(849,965)	$0.11 –	7.81	4.19
Cancelled	(5,471,644)	$3.99 –	114.56	13.13
Outstanding, March 31, 2006	18,198,486	$0.11 –	$115.75	$ 10.56

Information regarding stock options outstanding as of March 31, 2006 is as follows:

			Outstanding			Options Exercisable		
Range of Exercise Prices			Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 0.11	–	$ 5.89	5,743,240	8.78	$ 5.33	1,597,724	8.74	$ 4.69
5.93	–	8.07	3,791,916	8.20	7.12	1,429,914	7.55	7.14
8.11	–	10.06	3,888,619	7.65	9.15	3,639,644	7.55	9.22
10.14	–	14.36	3,820,022	6.08	13.15	3,820,022	6.08	13.15
14.70	–	115.75	954,689	4.83	51.05	954,689	4.83	51.05
$ 0.11	–	$115.75	18,198,486	7.64	$ 10.56	11,441,993	7.41	$ 13.13

Certain options for employee and non-employee directors granted during the years ended March 31, 2000, 1999 and 1998 resulted in deferred stock compensation as the estimated fair value (derived by reference to contemporaneous sales of convertible preferred stock) was greater than the exercise price on the date of grant. The total deferred stock compensation associated with these options was approximately $16,093,000. This amount is being amortized over the respective vesting periods of these options, ranging from three to four years. Approximately $0, $0 and $202,000 was amortized during the years ended March 31, 2006, 2005 and 2004, respectively, related to these options.

Employee Stock Purchase Plan

In January 2000, the Board of Directors approved the Company's Employee Stock Purchase Plan (the "ESPP"). The ESPP became effective upon the completion of the Company's initial public offering on February 10, 2000. A total of 6,000,000 shares of common stock have been made available for issuance under the ESPP as of March 31, 2006. The number of shares of common stock available for issuance

16. Stock based compensation — (Continued)

under the ESPP will be increased on the first day of each calendar year during the remaining three year term of the ESPP by 750,000 shares of common stock.

The ESPP, which is intended to qualify under Section 423 of the IRS Code, is implemented by a series of overlapping offering periods of 24 months' duration, with new offering periods, other than the first offering period, commencing on or about January 1 and July 1 of each year. Each offering period consists of four consecutive purchase periods of approximately six months' duration, and at the end of each purchase period, the Company will make a purchase on behalf of the participants. Participants generally may not purchase more than 4,000 shares on any purchase date or stock having a value measured at the beginning of the offering period greater than $25,000 in any calendar year.

The purchase price per share is 85% of the lower of (1) the fair market value of webMethods, Inc. common stock on the purchase date and (2) the fair market value of a share of webMethods, Inc. common stock on the last trading day before the offering date.

The following table summarizes shares of common stock of webMethods, Inc. available for issuance and shares purchased as of March 31, 2006 (in thousands).

Balance at March 31, 2004	3,418
Additional authorized shares	750
Purchases	(304)
Balance at March 31, 2005	3,864
Additional authorized shares	750
Purchases	(278)
Balance at March 31, 2006	4,336

Shareholder Rights Plan

In October 2001, the Board of Directors adopted a shareholder rights plan, which may cause substantial dilution to a person or group that attempts to acquire webMethods, Inc. on terms not approved by the Board of Directors. Under the plan, webMethods distributed one right for each share of webMethods, Inc. common stock outstanding at the close of business on October 18, 2001. Initially, the rights trade with shares of webMethods, Inc. common stock and are represented by webMethods, Inc. common stock certificates. The rights are not immediately exercisable and generally become exercisable if a person or group acquires, or commences a tender or exchange offer to acquire, beneficial ownership of 15% or more of webMethods common stock while the plan is in place. Each right will become exercisable, unless redeemed, by its holder (unless an acquiring person or member of that group) for shares of webMethods, Inc. or of the third-party acquirer having a value of twice the right's then-current exercise price. The rights are redeemable by webMethods, Inc. and will expire on October 18, 2011.

17. Employee benefit plan

As of April 1, 1997, the Company adopted a contributory 401(k) plan covering all full-time employees who meet prescribed service requirements. There are no required Company matching contributions. The plan provides for discretionary contributions by the Company. The Company made no contributions during the years ended March 31, 2006, 2005 and 2004.

18. Supplemental disclosures of cash flow information:

	Year Ended March 31, 2006	2005	2004
	(In thousands)		
Cash paid during the period for interest	$ 82	$ 98	$ 202
Non-cash investing and financing activities:			
Equipment purchased under capital lease	$ 270	$ 313	$ 1,457
Conversion of interest income into equity in private company	—	—	257
Change in net unrealized gain or loss on marketable securities	(199)	496	165
Dante Acquisition:			
Fair value of assets acquired, net of cash acquired	$ —	$ —	$ 308
Less:			
Liabilities assumed	—	—	(401)
	—	—	(93)
In-process research and development	—	—	3,138
Existing technology	—	—	3,530
Customer relationships	—	—	392
Goodwill	—	—	12,152
Cash paid for acquisition, net of cash acquired	$ —	$ —	$ 19,119
TME Acquisition:			
Fair value of assets acquired, net of cash acquired	$ —	$ —	$ 154
Less:			
Liabilities assumed	—	—	(848)
	—	—	(694)
In-process research and development	—	—	1,146
Existing technology	—	—	2,379
Customer relationships	—	—	441
Goodwill	—	—	4,715
Cash paid for acquisition, net of cash acquired	$ —	$ —	$ 7,987
DataChannel Assets Acquired from Netegrity:			
Fair value of assets acquired, net of cash acquired	$ —	$ —	$ 101
Less:			
Liabilities assumed	—	—	(66)
	—	—	35
Existing technology	—	—	5,243
Cash paid for acquisition, net of cash acquired	$ —	$ —	$ 5,278

19. Restructuring and related charges

The Company has recorded restructuring and related charges to align its cost structure with changing market conditions. During the year ended March 31, 2006, the Company incurred restructuring costs of $411,000 which includes restructuring cost of $719,000 that consist primarily of severance and related benefits, net of the $308,000 reduction in the accrual for excess facilities costs.

During the year ended March 31, 2005, the Company recorded restructuring and related charges of $5.9 million, consisting of $2.8 million for headcount reductions and $3.1 million for excess facility costs related to the relocation of the Company's headquarters. The estimated excess facility costs were based on the Company's contractual obligations, net of estimated sublease income, based on current comparable lease rates. The Company reassesses this liability each period based on market conditions. Revisions to the estimates of this liability could materially impact the operating results and financial position in future periods if anticipated events and key assumptions, such as the timing and amounts of sublease rental income, either change or do not materialize. In connection with the lease on the new headquarters facility, the Company received certain rent abatements and allowances totaling approximately $3.1 million as of March 31, 2005 and will receive additional incentives totaling $2.0 million through December 2007. Such rent abatements and allowances are deferred and will be amortized as a reduction to rent expense over the 11-year term of the lease. For the years ended March 31, 2006 and 2005, the Company amortized $457,000 and $200,000, respectively as a reduction to rent expense.

During the year ended March 31, 2004, the Company recorded restructuring and related charges of $3.9 million consisting of $2.2 million for headcount reductions and $1.7 million for excess facility costs for the consolidation of facilities and related impairment of fixed assets. The excess facility costs were based on the Company's contractual obligations, net of sublease income.

During the year ended March 31, 2003, the Company recorded restructuring and related charges of $2.2 million for headcount reductions.

As of March 31, 2006 and March 31, 2005, respectively, $2.2 million and $4.4 million of restructuring and excess facilities related charges remained unpaid. This portion primarily relates to rent on the excess facilities and will be paid over the remaining rental periods.

19. **Restructuring and related charges — (Continued)**

The following table sets forth a summary of total restructuring and related charges, payments made against those charges and the remaining liabilities as of March 31, 2006:

	Excess Facilities Santa Clara, CA and Fairfax, VA	Excess Facilities Berkeley, CA	Excess Facilities Fairfax, VA	Severance And Related Benefits	Impairment of Fixed Assets	Total
			(In thousands)			
Balance at March 31, 2003	$ 1,699	$ —	$ —	$ 54	$ —	$ 1,753
Fiscal 2004 charges	—	1,508	$ —	2,165	247	3,920
Non-cash write-down of fixed assets	—	—	—	—	(247)	(247)
Cash payments made in fiscal 2004	(782)	(65)	—	(1,470)	—	(2,317)
Balance at March 31, 2004	$ 917	$ 1,443	$ —	$ 749	$ —	$ 3,109
Fiscal 2005 charges	—	—	3,093	3,012	—	6,105
Adjustments due to revision in estimated severance and related benefits	—	—	—	(256)	—	(256)
Cash payments made in fiscal 2005	(383)	(436)	(193)	(3,505)	—	(4,517)
Balance at March 31, 2005	$ 534	$ 1,007	$ 2,900	$ —	$ —	$ 4,441
Fiscal 2006 charges	—	—	—	719	—	719
Adjustments due to revision in estimated sublease income	(153)	77	(232)	—	—	(308)
Cash payments made in fiscal 2006	(215)	(337)	(1,418)	(719)	—	(2,689)
Balance at March 31, 2006	$ 166	$ 747	$ 1,250	$ —	$ —	$ 2,163

20. **Segment Information**

The Company operates in a single reportable segment: the development and sale of business integration and optimization software and related services. Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is it's Chief Executive Officer.

Revenue is primarily attributable to the geographic region in which the contract is signed and the product is deployed. The regions in which the Company operates are the Americas, Europe/ Middle East/ Africa ("EMEA"), Japan and Asia Pacific. Information regarding the Company's revenues and long-lived

20. Segment information — (Continued)

assets, excluding goodwill, intangibles, long-term investments, long-term deferred tax asset and long-term restricted cash, by region, is as follows:

	Years Ended March 31,		
	2006	2005	2004
	(In thousands)		
Revenue			
Americas	$ 131,410	$ 119,610	$ 114,507
EMEA	52,884	50,599	44,965
Japan	9,100	15,157	15,472
Asia Pacific	15,424	15,235	14,597
Total	$ 208,818	$ 200,601	$ 189,541
Long Lived Assets			
Americas	$ 10,981	$ 12,478	$ 13,006
EMEA	1,393	1,852	2,189
Japan	1,132	1,509	1,681
Asia Pacific	843	630	360
Total	$ 14,349	$ 16,469	$ 17,236

21. Commitments and Contingencies

A purported class action lawsuit was filed in the U.S. District Court for the Southern District of New York in 2001 that named webMethods, Inc., several of the Company's executive officers at the time of its initial public offering (IPO) and the managing underwriters of the Company's initial public offering as defendants. This action made various claims, including that alleged actions by underwriters of the Company's IPO were not disclosed in the registration statement and final prospectus for its IPO or disclosed to the public after its IPO, and sought unspecified damages on behalf of a purported class of purchasers of webMethods, Inc. common stock between February 10, 2000 and December 6, 2000. This action was consolidated with similar actions against more than 300 companies as part of *In Re Initial Public Offering Securities Litigation (SDNY)*. Claims against the Company's executive officer defendants have been dismissed without prejudice. The Company has considered and agreed with representatives of the plaintiffs in the consolidated proceeding to enter into a proposed settlement, which was amended in March 2005 and preliminarily approved by the court in late August 2005. A fairness hearing was held on April 24, 2006, and a motion for final approval of the settlement is currently under submission before the Court. Under the proposed settlement, the plaintiffs would dismiss and release their claims against the Company in exchange for a contingent payment guaranty by the insurance companies collectively responsible for insuring the issuers in the consolidated action and assignment or surrender to the plaintiffs by the settling issuers of certain claims that may be held against the underwriter defendants, plus reasonable cooperation with the plaintiffs with respect to their claims against the underwriter defendants. The Company believes that any material liability on behalf of webMethods that may accrue under the proposed settlement would be covered by its insurance policies.

From time to time, the Company is involved in other disputes and litigation in the normal course of business.

EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Fifth Amended and Restated Certificate of Incorporation of webMethods, Inc., as amended
3.2(2)	Second Amended and Restated Bylaws of webMethods, Inc.
4.1(3)	Specimen certificate for shares of webMethods, Inc. Common Stock
4.2(4)	Rights Agreement dated as of October 18, 2001 between webMethods, Inc. and American Stock Transfer & Trust Company
10.1(5)	webMethods, Inc. Amended and Restated Stock Option Plan, as Amended
10.2(3)	Employee Stock Purchase Plan
10.3(3)	Indemnification Agreement entered into between webMethods, Inc. and each of its directors and executive officers
10.4(6)	Executive Agreement entered into between webMethods, Inc. and certain of its executive officers
10.5(7)	Form of Stock Option Agreement for stock option grants to employees or officers other than California residents
10.6(8)	Form of Stock Option Agreement for stock option grants to directors
10.7(7)	Form of notice of grant of stock option
10.8(9)	Deferred Compensation Plan for Directors, as amended
10.9*	Description of salary and bonus arrangements for certain executive officers
21.1*	Subsidiaries of webMethods, Inc.
23.1*	Consent of PricewaterhouseCoopers LLP
24	Power of Attorney (included on signature page hereof)
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer
32.1* #	Section 1350 Certification of Chief Executive Officer
32.2* #	Section 1350 Certification of Chief Financial Officer

(1) Incorporated by reference to webMethods' Form 10-K for the year ended March 31, 2001 (File No. 1-15681).

(2) Incorporated by reference to webMethods' Form 10-Q for the three months ended December 31, 2004 (File No. 1-15681).

(3) Incorporated by reference to webMethods' Registration Statement on Form S-1, as amended (File No. 333-91309).

(4) Incorporated by reference to webMethods' Registration Statement on Form 8-A (File No. 000-33329).

(5) Incorporated by reference to webMethods' Form 10-K for the year ended March 31, 2002 (File No. 1-15681).

(6) Incorporated by reference to webMethods' Form 10-Q for the three months ended June 30, 2004 (File No. 1-15681).

(7) Incorporated by reference to webMethods' Form 8-K dated October 2, 2004 (File No. 1-15681).

(8) Incorporated by reference to webMethods' Form 10-Q for the three months ended September 30, 2004 (File No. 1-15681).

(9) Incorporated by reference to webMethods' Form 10-Q for the three months ended September 30, 2005 (File No. 1-15681).

* Filed herewith.

This item is furnished as an exhibit to this report but is not filed with the Securities and Exchange Commission.

1404436068

DEF 14A 1 webmethod_nps1.htm NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

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

SCHEDULE 14A
(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒
Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to § 240.14a-12

WEBMETHODS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

---

webMethods.

July 11, 2006

Dear webMethods, Inc. Stockholders:

You are cordially invited to attend the 2006 annual meeting of stockholders of webMethods, Inc. to be held on August 29, 2006 at 9:00 a.m. local time, at the Hyatt Regency Reston, 1800 Presidents Street, Reston, Virginia 20190.

The matters we expect will be acted upon at the meeting are described in the following Notice of Annual Meeting of Stockholders and proxy statement.

Enclosed is our Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

It is very important that you vote your shares. You may do this by completing, signing and mailing the enclosed proxy card in the enclosed envelope or by voting via the Internet or by telephone as instructed on the enclosed proxy card. Returning the proxy card or voting via the Internet or by telephone does not deprive you of your right to attend the meeting and to vote your shares in person. Please ensure that your vote is counted by voting your shares today.

We look forward to greeting those of you who are able to attend. If you will attend the annual meeting, please bring proof of identification and evidence that you are a webMethods stockholder for admission to the meeting.

Sincerely,

DAVID MITCHELL
President and Chief Executive Officer

William Russell

BILL RUSSELL
Non-Executive Chairman of the Board

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE VOTE BY SIGNING AND RETURNING THE ENCLOSED PROXY CARD, VIA THE INTERNET OR BY TELEPHONE, AS PROMPTLY AS POSSIBLE.

---

webMethods.

3877 Fairfax Ridge Road | South Tower | Fairfax, VA 22030 USA
Phone: 703.460.2500 | Fax: 703.460.2599

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of webMethods, Inc.:

The 2006 annual meeting of stockholders of webMethods, Inc. will be held on August 29, 2006 at 9:00 a.m. local time, at the Hyatt Regency Reston, 1800 Presidents Street, Reston, Virginia 20190, for the following purposes:

1. To elect three persons as Class I directors to hold office until the annual meeting of stockholders in 2009;
2. To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007;
3. To consider and vote upon the approval of the webMethods, Inc. 2006 Omnibus Stock Incentive Plan; and
4. To transact such other business as may properly come before the meeting or any continuation or postponement of the meeting.

Items 1, 2 and 3 are more fully described in the proxy statement accompanying this Notice, which we urge you to read. Holders of record of webMethods, Inc. common stock at the close of business on June 30, 2006, the record date for the meeting, are entitled to notice of, and to vote at, the meeting and any continuation or postponement of the meeting. The vote required for approval of each of the proposals is set forth in the section of the proxy statement entitled "Vote Required to Approve the Proposals; Effect of Abstentions and Broker Non-Votes."

Stockholders of webMethods are invited to attend the meeting. Whether or not you expect to attend the meeting, please complete, sign and return the enclosed proxy or follow the alternative voting procedures described on the enclosed proxy as promptly as possible. Doing so will help ensure that as many shares are represented as possible.

By Order of the Board of Directors,

DOUGLAS W. MCNITT
Secretary

14044360692

Fairfax, Virginia
July 11, 2006

webMethods.

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS

This proxy statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of webMethods, Inc., a Delaware corporation, for use at the 2006 annual meeting of stockholders of webMethods, Inc. to be held on August 29, 2006 at 9:00 a.m. local time, at the Hyatt Regency Reston, 1800 Presidents Street, Reston, Virginia 20190, or at any continuation or postponement of the meeting. We are first mailing this proxy statement and the enclosed form of proxy to stockholders on or about July 14, 2006. We have enclosed the annual report on Form 10-K of webMethods, Inc. for the fiscal year ended March 31, 2006.

Table of Contents

Information about the 2006 Annual Meeting and Voting	2
Proposal 1 – Election of Directors	4
Proposal 2 – Ratification of Selection of Independent Registered Public Accounting Firm	4
Proposal 3 – Approval of the 2006 Omnibus Stock Incentive Plan	6
Board of Directors	10
Security Ownership of Certain Beneficial Owners and Management	16
Executive Officers	17
Executive Compensation	18
Report of the Compensation Committee	22
Report of the Audit Committee	26
Stock Price Performance Graph	28
Certain Relationships and Related Transactions	29
Other Information	29
Annex A: webMethods, Inc. 2006 Omnibus Stock Incentive Plan	A-1
Annex B: Audit Committee Charter	B-1

INFORMATION ABOUT THE 2006 ANNUAL MEETING AND VOTING

STOCKHOLDERS ENTITLED TO VOTE

Stockholders of record, or "registered" stockholders, of our common stock at the close of business on June 30, 2006, our record date, will be entitled to vote at the 2006 annual meeting of stockholders. At the close of business on June 30, 2006, we had 55,201,899 shares of common stock outstanding and entitled to vote. Each of those shares entitles the holder to one vote for each matter to be voted upon at that meeting except for the election of directors, for which each share entitles the holder to one vote for each of the directors to be elected.

VOTES NEEDED FOR A QUORUM

A majority of the shares of our common stock outstanding on the record date, or 27,600,950 shares of webMethods, Inc. common stock, must be present or represented by proxy at our 2006 annual meeting of stockholders in order to have a quorum for the transaction of business. "Broker non-votes" (described below) and abstentions will be treated as shares present or represented by proxy for the purpose of determining the presence of a quorum for the transaction of business at the meeting.

VOTE REQUIRED TO APPROVE THE PROPOSALS; EFFECT OF ABSTENTIONS AND BROKER NON-VOTES

With respect to Proposal 1, you may vote "FOR" all or some of the three nominees or your vote may be "WITHHELD" with respect to one or more of the nominees. Three directors will be elected by a plurality of the votes duly cast on that matter. This means that the three nominees who receive the most "FOR" votes will be elected. Nominees do not need to receive a majority to be elected. If you "WITHHOLD" authority to vote, your shares will not be considered "votes duly cast" with respect to the nominees indicated and thus, will have no effect on the outcome of the election of these nominees.

With respect to Proposals 2 and 3, you may vote "FOR," "AGAINST" or "ABSTAIN." The affirmative vote of the holders of a majority of the common stock present in person or represented by proxy at the meeting and entitled to vote thereon is required to ratify the selection of the Company's independent registered public accounting firm and to approve the 2006 Omnibus Stock Incentive Plan.

Please note that nominees, such as brokers, financial institutions or other record holders, that have not received voting instructions from their clients cannot vote on their clients' behalf on "non-routine" proposals, such as the approval of the 2006 Omnibus Stock Incentive Plan, but may vote their clients' shares on other "routine" proposals, such as the election of directors or the ratification of the selection of our independent registered public accounting firm. In the event that a broker, financial institution or other record holder of our common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, referred to as a "broker non-vote," those shares will not be considered entitled to vote with respect to that matter. Broker non-votes will have no effect on the outcome of the votes on any of the proposals.

Abstentions will be counted as shares present or represented by proxy and entitled to vote on Proposals 2 and 3, and thus will have the effect of a vote "AGAINST" the Proposals.

No proposal is conditioned upon the approval of any other proposal by the stockholders.

HOW TO VOTE YOUR SHARES

The proxy enclosed with this proxy statement is solicited on behalf of our Board of Directors for use at the 2006 annual meeting of stockholders. Registered stockholders can vote proxies as follows:

- **By mail:** Complete, date and sign the enclosed proxy and promptly mail it in the return envelope provided.
- **By Internet:** Go to the website indicated on the enclosed proxy and follow the instructions provided.
- **By telephone:** Call the toll-free number indicated on the enclosed proxy card and follow the recorded instructions.

If your shares of our common stock are held beneficially or in "street" name through a nominee, such as a broker, financial institution or other record holder, your vote is controlled by that firm. In addition to voting by mail, your vote may be cast via the Internet or by telephone if your financial institution offers those voting alternatives. Please follow the specific instructions provided by your nominee on your proxy. Stockholders submitting proxies or voting instructions via the Internet should understand that there may be costs associated with Internet access, such as access charges from Internet service providers or telephone companies that will be borne by the stockholder.

Even if you have given your proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held beneficially or in "street" name through a nominee and you wish to vote at the meeting, when you vote your shares at the meeting you must present a letter from your nominee confirming your beneficial ownership, as of June 30, 2006, of the shares you intend to vote.

If you complete, sign and mail your proxy without indicating how you want to vote, your proxy will be voted "FOR" each of the three nominees for the Board of Directors, "FOR" the ratification of the selection of independent registered public accounting firm and "FOR" the 2006 Omnibus Stock Incentive Plan. If any other matter is presented at the meeting for consideration, the persons appointed as proxies will have discretion to vote on that matter in accordance with their own judgment to the same extent as the person signing the proxy would be entitled to vote. In accordance with our bylaws, the 2006 annual meeting may be adjourned, including by the chairman, in order to permit the solicitation of additional proxies. At any subsequent reconvening of the annual meeting, all proxies will be voted in the same manner as they would have been voted at the original annual meeting (except for any proxies that have effectively been revoked or withdrawn). Proxies voting "AGAINST" a proposal set forth herein will not be used to adjourn the annual meeting to obtain additional proxies or votes with respect to such proposal.

All proper proxies that we receive prior to the vote being taken at the meeting will be voted as indicated on the proxy unless the proxy is revoked at the meeting. A proxy may be revoked by a registered stockholder by (i) a written, dated document delivered to the Secretary of webMethods prior to the meeting stating that the proxy is revoked; (ii) a subsequent proxy by the same person who voted the earlier proxy that is presented at or prior to the meeting; or (iii) attendance at the meeting and voting in person.

SOLICITATION OF PROXIES

We will pay the expenses of soliciting proxies to be voted at our 2006 annual meeting of stockholders. In addition to soliciting proxies through the mail, our directors, officers and employees may solicit proxies in person or by telephone, telegram, fax, electronic mail or other means of communication. Directors, officers and employees will not receive additional compensation for their efforts during this solicitation, but may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation. Also, we have retained Georgeson Shareholder Communications, Inc. to assist us in soliciting proxies. We will pay an estimated fee of $12,000, plus expenses, to Georgeson Shareholder Communications, Inc. After the original mailing of the proxies and other solicitation materials, we will request that brokers, financial institutions, custodians, nominees and other record holders of our common stock forward copies of the proxy and solicitation materials to beneficial owners for whom they hold shares. We intend to reimburse these record holders for reasonable expenses incurred in forwarding these materials.

OTHER BUSINESS

Our Board of Directors does not currently intend to bring any other business before our 2006 annual meeting of stockholders, and, so far as is known to our Board, no matters are to be brought before that meeting except as specified in the Notice of Annual Meeting of Stockholders that accompanies this proxy statement. As to any business that may properly come before that meeting, however, it is intended that proxies, in the form enclosed, will be voted on each matter in accordance with the judgment of the persons voting such proxies.

PROPOSAL 1
ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes and currently consists of ten members. We have four Class I directors, whose terms expire at our 2006 annual meeting of stockholders; three Class II directors, whose terms expire at our 2007 annual meeting of stockholders; and three Class III directors, whose terms expire at our 2008 annual meeting of stockholders.

R. James Green, Peter Gyenes and William V. Russell have been nominated by the Board of Directors, upon the unanimous recommendation of the Corporate Governance and Nominating Committee, for election as Class I directors. All three nominees are currently Class I directors and detailed information about each of them is contained in the section of this proxy statement entitled "Board of Directors." If elected, each nominee will hold office until the 2009 annual meeting of stockholders or until his successor is elected and qualified. Each of the nominees has indicated his willingness to serve if elected. However, if any nominee for any reason is unable to serve as a directer, then the proxies may be voted for a substitute nominee nominated by our Board of Directors, or our Board may reduce the number of directors, both upon the recommendation of the Corporate Governance and Nominating Committee.

The Board of Directors did not nominate a fourth individual for election as a Class I director because, following the 2006 annual meeting, the number of Class I directors is expected to be reduced to three and the size of the Board of Directors is expected to be reduced to nine members. The proxies solicited pursuant to this proxy statement may not be voted for more than three nominees.

REQUIRED VOTE

The three nominees receiving the highest number of "FOR" votes duly cast at the meeting will be elected, regardless of whether that number represents a majority of the votes cast.

The Board recommends a vote "FOR" the election of each nominee to serve as a Director of webMethods.

PROPOSAL 2
RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors has selected PricewaterhouseCoopers LLP as our independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending March 31, 2007. Although stockholder approval of the Audit Committee's selection is not required, the Board of Directors has determined that it is advisable to request that our stockholders ratify this selection as a matter of sound corporate governance. If our stockholders do not ratify this selection, then the Audit Committee will reconsider the selection. In such event, the Audit Committee may retain PricewaterhouseCoopers LLP, notwithstanding the fact that the stockholders did not ratify the selection, or select another accounting firm without re-submitting the matter to the stockholders. Even if the selection is ratified, the Audit Committee reserves the right in its discretion to select a different accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

PricewaterhouseCoopers LLP has served as our independent registered public accounting firm since 1996. Representatives of PricewaterhouseCoopers LLP are expected to be present at the meeting, will have the opportunity to make a statement at the meeting if they desire to do so and are expected to be available to respond to appropriate questions.

FEES OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The following is a summary of fees billed to us by PricewaterhouseCoopers, LLP for audit and other professional services performed during fiscal years 2006 and 2005:

	Fiscal Year 2006	Fiscal Year 2005
AUDIT FEES: consists of fees for the audit of consolidated financial statements and review of interim financial statements, the audit of management's report on the effectiveness of our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 fees related to Sarbanes-Oxley Act compliance, fees related to required statutory audits of certain foreign subsidiaries and fees for assistance with SEC filings.	$2,383,504	$1,839,736
AUDIT RELATED FEES: fees in fiscal year 2006, consists of fees incurred for revenue		

contract consultations, transfer pricing study, liquidation of foreign subsidiary and procedures performed on revenue recognition of foreign subsidiaries. Fees in fiscal year 2005, consists of fees incurred in relation to restatement of the financial statements.	209,540	254,768
TAX FEES: consists of fees billed in relation to preparation and review of income tax returns of the corporation and its foreign subsidiaries and advice on tax matters.	101,884	132,886
ALL OTHER FEES: consists of fees billed in relation to certain foreign subsidiaries administrative filing and fees for an accounting rule subscription service.	7,987	9,383
TOTAL FEES	$2,702,915	$2,236,773

AUDIT COMMITTEE PRE-APPROVAL POLICY

The Audit Committee of our Board of Directors must approve any proposed engagement of our independent registered public accounting firm before it is engaged by us or our subsidiaries to provide audit, audit-related or non-audit services. Prior to engagement of the independent registered public accounting firm for the next year's audit, the independent registered public accounting firm will submit to the Audit Committee for approval its estimate of fees for services then expected to be rendered during that fiscal year for the services listed in the table above. Prior to engagement, the Audit Committee pre-approves these services by type of service and estimated fees. The fees are budgeted and the Audit Committee requires the independent registered public accounting firm and management to report any anticipated overage of fees above the previously approved estimate. During the fiscal year, circumstances may arise in which it may become necessary to engage the independent registered public accounting firm for additional services not included in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent registered public accounting firm. Pursuant to our Audit Committee charter, the Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee, who will promptly advise the remaining members of the Audit Committee of such approval at the next regularly scheduled meeting. A limited exception to the pre-approval requirement exists but has not been utilized.

REQUIRED VOTE

The affirmative vote of the holders of a majority of the common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal is required to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007.

The Board recommends a vote "FOR" the ratification of the selection of PricewaterhouseCoopers LLP.

PROPOSAL 3
APPROVAL OF THE 2006 OMNIBUS STOCK INCENTIVE PLAN

INTRODUCTION

On July 6, 2006, our Board of Directors approved the webMethods, Inc. 2006 Omnibus Stock Incentive Plan, which we refer to as the New Plan, subject to the approval of our stockholders. The Board of Directors now is recommending that our stockholders approve the New Plan. The New Plan authorizes the issuance of options to purchase shares of common stock and the grant of stock awards, which consist of stock bonus awards, restricted stock awards, stock appreciation rights, deferred shares and performance shares. The Board of Directors believes that the New Plan promotes the best interests of webMethods and our stockholders by assisting us in the recruitment and retention of persons with ability and initiative, providing an incentive to such persons to contribute to the growth and success of our businesses by affording such persons equity participation in webMethods, and aligning the interests of such persons with those of webMethods and our stockholders.

Section 162(m) of the Internal Revenue Code, which we refer to as the Code, limits a corporation's income tax deduction for compensation paid to each executive officer to $1.0 million per year unless the compensation qualifies as performance-based compensation. Among the requirements for a grant under the New Plan to qualify as performance-based compensation, the New Plan must have been approved by our public stockholders. Stock options and stock appreciation rights granted under the New Plan are treated as performance-based compensation and are exempt from the deduction disallowance rule of Section 162(m). Other awards of compensation under the New Plan may also be exempt from the deduction disallowance rule of Section 162(m) as performance-based compensation, provided that the performance objectives (described below) used by us for establishing the performance goals for determining a participant's right or amount of a performance-based award are approved by the stockholders at least once every five years.

Set forth below is a summary of the material terms of the New Plan. All statements herein are intended only to summarize the New Plan and are qualified in their entirety by reference to the New Plan itself, which is attached hereto as Annex A. For a more complete description of the terms of the New Plan, you should be sure to read the New Plan.

14044360697

SUMMARY OF THE 2006 OMNIBUS STOCK INCENTIVE PLAN

Administration

Administration of the New Plan is carried out by the Board of Directors or any committee of the Board of Directors to which the Board of Directors has delegated all or a portion of responsibility for the implementation, interpretation or administration of the New Plan. The Board of Directors or such committee may delegate to one or more of our officers the authority to grant and administer stock options and stock awards to persons who are not directors or executive officers of webMethods, as long as the Board of Directors or such committee has first fixed the total number of shares of common stock that may be subject to such awards. As used in this summary, the term "administrator" means the Board of Directors, the committee designated by the Board of Directors, or the delegate of the Board of Directors or such committee.

Eligibility

Our employees, directors and consultants (including employees, directors and consultants of our affiliates) are eligible to participate in the New Plan. Awards other than incentive stock options may be granted to any such person; incentive stock options may be granted only to those persons who are employees of webMethods or a subsidiary corporation. As of July 11, 2006, approximately 840 such persons are eligible to participate in the New Plan. The term "subsidiary" is used in this summary to refer to any corporation in an unbroken chain of corporations beginning with us if each such corporation (other than the last corporation in the unbroken chain) owns stock possessing at least 50% of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Maximum Shares and Award Limits

Under the New Plan, the maximum number of shares of common stock that may be subject to stock options or stock awards, which consist of stock bonus awards, restricted stock awards, stock appreciation rights, deferred shares and performance shares, is (a) 8,500,000 plus (b) the number of shares of stock which are, as of the date on which our stockholders approve the New Plan, subject to outstanding stock options or stock appreciation rights under our Amended and Restated Stock Option Plan (the "Expiring Plan") and are not issued and will not be issued under our Expiring Plan because stock options or stock appreciation rights under such plan expire, become unexercisable or terminate unexercised, in whole or in part, after the date of approval of the New Plan by our stockholders. Any such increase, however, may not exceed 18,000,000 additional shares of common stock. As of June 30, 2006, we had an aggregate of 17,256,699 stock options outstanding under our Expiring Plan and our other stock incentive plans, with a weighted average remaining contractual life of 7.44 years and a weighted average exercise price of $10.75 per share. Notwithstanding the provisions of the New Plan referenced above, the maximum number of shares of common stock that may be issued pursuant to stock bonus awards, restricted stock awards, deferred shares and performance shares is 4,000,000. No participant in the New Plan may be granted awards representing more than 850,000 shares in any one calendar year. If an option or stock award terminates, expires or becomes unexercisable, the unissued or unpurchased shares (or shares subject to an unexercised stock appreciation right) that were subject to such grants become available under the first sentence of this paragraph for future awards under the New Plan. In addition, shares that are issued under any type of award under the New Plan and that are repurchased or reacquired by us at the original purchase price for those shares are also available under the first sentence of this paragraph for future awards under the New Plan. We will not issue any additional stock options or any stock appreciation rights under the Expiring Plan following the day of the approval of the New Plan. We have no stock options or stock awards available for grant under any other plan.

In order to address potential stockholder concerns regarding the number of stock options and stock awards that we intend to grant in a given year, the Board of Directors commits to our stockholders that, in the event the New Plan is approved, we will limit the number of stock options and stock awards that we grant to employees, directors and consultants during the three fiscal years commencing on April 1, 2006, so that the number of shares of common stock subject to all such grants of stock options and stock awards is not greater than an annual average of 8% of the weighted average number of shares of our common stock that we believe will be outstanding over such three year period. For purposes of calculating the number of shares granted in a fiscal year, stock bonus awards, restricted stock awards, deferred shares and performance shares will count as equivalent to (i) 1.5 shares if our annual stock price volatility is 53% or higher, (ii) two shares if our annual stock price volatility is between 25% and 52%, and (iii) four shares if our annual stock price volatility is less than 25%.

Stock Options

The New Plan provides for the grant of both options intended to qualify as incentive stock options under Section 422 of the Code and *options that are not intended to so qualify. Options intended to qualify as incentive stock options* may be granted only to those persons who are employees of webMethods or its affiliates. No participant may be granted incentive stock options that are exercisable for the first time in any calendar year for common stock having a total fair market value (determined as of the option grant), in excess of $100,000.

The administrator will select the participants who are granted options and, consistent with the terms of the New Plan, will prescribe the terms of each option, including the vesting rules for such option. The option exercise price cannot be less than the common stock's fair market value on the date the option is granted, and in the event a participant is deemed to be a 10% owner of our Company or one of our subsidiaries, the exercise price of an incentive stock option cannot be less than 110% of the common stock's fair market value on the date the option is granted. The New Plan prohibits repricing of an outstanding option, and therefore, the administrator may not, without the consent of the stockholders, lower the exercise price of an outstanding option (or cancel an outstanding option when the exercise price exceeds the fair market value of the common stock or exchange it for another option or stock award). This limitation does not, however, prevent adjustments resulting from stock dividends, stock splits, reclassifications of stock or similar events. Unless a participant's stock option agreement states otherwise, payment of the exercise price for an option price may be paid in cash or a cash equivalent acceptable to the administrator or, if the stock is traded on an established securities market, by payment of the exercise price by the participant or a broker. With the administrator's consent, payment of the exercise price of an option also may be made by surrendering shares of

common stock, or by any other method acceptable to the administrator. Options may be exercised in accordance with requirements set by the administrator. The maximum period in which an option may be exercised will be fixed by the administrator but cannot exceed seven years, and in the event a participant is deemed to be a 10% owner of our Company, our parent or one of our subsidiaries, the maximum period for an incentive stock option granted to such participant cannot exceed five years. Options generally will be non-transferable except in the event of the participant's death, but the administrator may allow the transfer of non-qualified stock options through a gift or domestic relations order to the participant's family members.

Stock Awards

Stock Bonus Awards

The administrator also will select the participants who are granted stock bonus awards and, consistent with the terms of the New Plan, will establish the terms of each stock bonus award.

Restricted Stock Awards

The administrator also will select the participants who are granted restricted stock awards and, consistent with the terms of the New Plan, will establish the terms of each restricted stock award. Vesting of such awards may be conditioned upon the attainment of certain performance objectives established by the administrator. Those performance objectives may be based on the individual performance of the participant, our performance or the performance of our affiliates, subsidiaries, divisions, departments or functions in which the participant is employed or has responsibility. In the case of a performance objective for an award intended to qualify as performance-based compensation under Section 162(m), the objectives are limited to specified levels of and increases in our or a business unit's return on equity; total earnings; earnings per share; earnings growth; return on capital; return on assets; economic value added; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; sales growth; gross margin return on investment; increase in the fair market value of the shares; share price (including but not limited to growth measures and total stockholder return); net operating profit; cash flow (including, but not limited to, operating cash flow and free cash flow); cash flow return on investments (which equals net cash flow divided by total capital); internal rate of return; increase in net present value or expense targets. Transfer of shares of common stock subject to a stock award normally will be restricted prior to vesting.

Stock Appreciation Rights

The administrator also will select the participants who receive stock appreciation rights under the New Plan and, consistent with the terms of the New Plan, will establish the terms of each stock appreciation right. The terms and conditions of separate stock appreciation rights do not need to be identical. No stock appreciation right may be exercised after the expiration of seven years from the date such right is granted.

Deferred Shares

The New Plan also authorizes the grant of deferred shares, *i.e.*, the right to receive a future delivery of shares of common stock at a specified time, if certain conditions are met. The administrator will select the participants who are granted awards of deferred shares and will establish the terms of each grant. The conditions established for earning the grant of deferred shares may include, for example, a requirement that certain performance objectives, such as those described above under Restricted Stock Awards, be achieved.

Performance Shares

The administrator also will select the participants who receive performance shares under the New Plan and, consistent with the terms of the New Plan will establish the terms of each performance share. A performance share is an award designated in a specified number of shares of common stock that is payable in whole or in part if and to the extent certain performance objectives are achieved. The performance objectives will be prescribed by the administrator for grants intended to qualify as performance-based compensation under Section 162(m) and will be stated with reference to the performance objectives described above, such as those described above under Restricted Stock Awards.

Amendment and Termination

Our Board of Directors may amend or terminate the New Plan at any time, but an amendment will not become effective without the approval of our stockholders (within 12 months of the date such amendment is adopted by the Board of Directors) if it increases the aggregate number of shares of common stock that may be issued under the New Plan, changes the class of employees eligible to receive incentive stock options, modifies the restrictions on repricings set forth in the New Plan, or is required by any applicable law, regulation or rule, including any rule of the stock exchange or market on which our stock is listed or quoted. No amendment or termination of the New Plan will adversely affect a participant's rights under outstanding awards without the participant's consent. Unless it is terminated earlier, the New Plan terminates ten years after the earlier of (a) the date the New Plan is adopted by the Board, or (b) the date the New Plan is approved by the stockholders.

FEDERAL INCOME TAX ASPECTS OF THE NEW PLAN

This is a brief summary of the federal income tax aspects of awards that may be made under the New Plan based on existing U.S. federal income tax laws. This summary provides only the basic tax rules. It does not describe a number of special tax rules, including the alternative minimum tax, various elections that may be applicable under certain circumstances and the consequences of issuing an award that fails to comply with the payment date rules applicable to nonqualified deferred compensation under Section 409A of the Code. The tax consequences of awards under the New Plan depend upon the type of award and if the award is to an executive officer, whether the award qualifies as performance-based compensation under Section 162(m) of the Code.

Incentive Stock Options

The recipient of an incentive stock option generally will not be taxed upon grant of the option. Federal income taxes are generally imposed only when the shares of stock from exercised incentive stock options are disposed of, by sale or otherwise. The amount by which the fair market value of the stock on the date of exercise exceeds the exercise price is, however, included in determining the option recipient's liability for the alternative minimum tax. If the incentive stock option recipient does not sell or dispose of the stock until more than one year after the receipt of the stock and two years after the option was granted, then, upon sale or disposition of the stock, the difference between the exercise price and the market value of the stock as of the date of exercise will be treated as a capital gain, and not ordinary income. If a recipient fails to hold the stock for the minimum required time, at the time of the disposition of the stock, the recipient will recognize ordinary income in the year of disposition in an amount equal to any excess of the market value of the common stock on the date of exercise (or, if less, the amount realized or disposition of the shares) over the exercise price paid for the shares. Any further gain (or loss) realized by the recipient generally will be taxed as short-term or long-term gain (or loss) depending on the holding period. We will not receive a tax deduction for incentive stock options that are taxed to a recipient as capital gains; however, we will receive a tax deduction if the sale of the stock does not qualify for capital gains tax treatment.

14044560700

Nonqualified Stock Options

The recipient of stock options not qualifying as incentive stock options generally will not be taxed upon the grant of the option. Federal income taxes are generally due from a recipient of nonqualified stock options when the stock options are exercised. The difference between the exercise price of the option and the fair market value of the stock purchased on such date is taxed as ordinary income. Thereafter, the tax basis for the acquired stock is equal to the amount paid for the stock plus the amount of ordinary income recognized by the recipient. We will normally receive a tax deduction equal to the amount of ordinary income realized by the option recipient by reason of the exercise of the option.

Other Awards

The payment of other awards under the New Plan will generally be treated as ordinary compensation income at the time of payment or, in the case of restricted stock subject to a vesting requirement, at the time substantial vesting occurs. A recipient who receives restricted shares which are not substantially vested, may, within 30 days of the date the shares are transferred, elect in accordance with Section 83(b) of the Code to recognize ordinary compensation income at the time of transfer of the shares. The amount of ordinary compensation income is equal to the amount

of any cash and the amount by which the then fair market value of any common stock received by the participant exceeds the purchase price, if any, paid by the participant. Subject to the application of Section 162(m), we will normally receive a tax deduction for the amount of the compensation income.

Section 162(m)

Section 162(m) would render non-deductible to us certain compensation in excess of $1.0 million in any year to certain of our executive officers unless such excess is "performance-based compensation" (as defined in the Code). Options and stock appreciation rights granted under the New Plan are designed to qualify as performance-based compensation. Performance shares which are based on the performance objectives contained in the New Plan are also intended to qualify as performance-based compensation. As described above with respect to restricted stock awards and deferred shares, the administrator may condition such awards on attainment of one or more performance goals that are intended to qualify such awards as performance-based compensation.

REQUIRED VOTE

The affirmative vote of the holders of a majority of the common stock present in person or represented by proxy at the meeting and entitled to voto on the proposal is required to approve the 2006 Omnibus Stock Incentive.

The Board recommends a vote "FOR" approval of the 2006 Omnibus Stock Incentive Plan.

BOARD OF DIRECTORS

DIRECTORS AND NOMINEES

Our Board of Directors is divided into three classes and currently consists of ten members. We have four Class I directors, whose terms expire at our 2006 annual meeting of stockholders; three Class II directors, whose terms expire at our 2007 annual meeting of stockholders; and three Class III directors, whose terms expire at our 2008 annual meeting of stockholders. Following the 2006 annual meeting, the number of Class I directors is expected to be reduced to three and the size of the Board of Directors is expected to be reduced to nine members. Set forth below is information with respect to the three nominees for reelection as Class I directors and the six directors whose terms of office will continue after the annual meeting.

The nominees for election as Class I directors at our 2006 annual meeting of stockholders, and certain information about them, are set forth below.

Name	Age	Current Position with webMethods
R. James Green	56	Director
Peter Gyenes (1)(2)(3)	60	Director
William V. Russell (1)	54	Non-executive Chairman of the Board

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Our Board of Directors, upon the recommendation of our Corporate Governance and Nominating Committee, reclassified Mr. Gyenes as a Class I director on July 6, 2006.

Jim Green has been a director of webMethods since August 2000. Mr. Green served as Chief Technology Officer and Executive Vice President of webMethods from August 2000 through March 2003, and served as webMethods' Chief Scientist from April 2003 to September 2003. He has served as Chief Executive Officer of Composite Software, Inc., an enterprise information integration solutions provider, since April 2003 and has served as Chairman of that company since 2003. Before joining webMethods, Mr. Green co-founded and served as Chairman and Chief Executive Officer of Active Software, Incorporated, which webMethods acquired in August 2000. Prior to founding Active Software, Mr. Green established and managed the distributed objects program at Sun Microsystems, Inc., a provider of network computing products, where he was Director of Engineering from 1988 to 1995. Mr. Green holds a B.A. from Hanover College, an M.S. from North Carolina State University and an M.S. in Computer Science from San Jose State.

Peter Gyenes has been a director of webMethods since May 2006. Mr. Gyenes has four decades of experience in sales, marketing and general management positions within the software and computer systems industry. He served as Chairman and Chief Executive Officer of Ascential Software Corporation from 2001 until it was acquired by IBM in April 2005. Mr. Gyenes had previously served since 2000 as Chairman and Chief Executive Officer of Informix Software, Inc., Ascential's predecessor firm. Ascential was created following the sale of Informix's database business to IBM under Mr. Gyenes' leadership. Mr. Gyenes joined Informix through its acquisition of Ardent Software, where he had served as Chairman, President and CEO since joining the firm in 1996. Previously, Mr. Gyenes had served as President and Chief Executive Officer of Racal InterLan Inc., and has held global executive sales, marketing and general management positions at Data General Corporation, Encore Computer Corporation and Prime Computer, Inc. Earlier in his career, Mr. Gyenes held technical positions at Xerox Data Systems and at IBM. Mr. Gyenes also serves on the boards of Applix, Inc., Lawson Software, Inc., ViryaNet, Inc, several privately-held technology companies and the Massachusetts Technology Leadership Council. Mr. Gyenes is a graduate of Columbia University, where he received a B.A. in mathematics and an MBA.

Bill Russell has been a director of webMethods since September 2003 and non-executive Chairman of the Board since October 2004. Mr. Russell has been an adviser to enterprise software companies since he retired from Hewlett-Packard Company in May 2003. At HP, he held a broad range of senior-level positions providing strong international background and significant experience in the enterprise software industry. From May 2002 to May 2003, Mr. Russell served as Vice President of HP's Global Alliances Group, where he was responsible for leading the company-wide relationships with the top strategic alliance partners for HP. From September 1999 to May 2002, he served as Vice President and General Manager of HP's Software Solutions Organization, and, from 1997 to September 1999, as Vice President and General Manager of HP's Enterprise Systems Group. Prior to that, he served as general manager of HP's technical computing group and general manager of HP's computer systems organization for Europe, Middle East and Africa. Mr. Russell also served on the board of HP Japan, Ltd. Mr. Russell also serves as a director of Cognos, Inc. and as non-executive chairman of Network Physics, Inc., a privately-held company. He holds a B.S.C. degree from Edinburgh University, Scotland.

The incumbent Class I director whose term expires at our 2006 annual meeting of stockholders, and certain information about him, is set forth below.

Name	Age	Current Position with webMethods
William A. Halter (1)	45	Director

(1) Member of the Compensation Committee.

William A. Halter has been a director of webMethods since August 2003. He has been a management consultant since April 2001. From November 1999 through March 2001, he served as Deputy Commissioner, and later as Acting Commissioner, of the Social Security Administration, an agency of the U.S. government. From 1993 through November 1999, he served as a Senior Advisor in the Director's Office, Office of Management and Budget, Executive Office of the President of the United States. Mr. Halter also served as Economist for the Joint Economic Committee of Congress and as Chief Economist of the Senate Finance Committee. Before entering public service, he was a management consultant at McKinsey and Company. Mr. Halter also serves on the board of directors of Akamai Technologies, Inc., Threshold Pharmaceuticals, Inc. and Xenogen Corporation. He is a Trustee Emeritus and serves on several advisory councils of Stanford University. He is a Rhodes Scholar, and holds a Master of Philosophy in Economics from Oxford University and an A.B. in Economics and Political Science from Stanford University.

The incumbent Class II directors, whose terms expire at our 2007 annual meeting of stockholders, and certain information about them, are set forth below.

Name	Age	Current Position with webMethods
James P. Gauer (1)	54	Director
Jack L. Lewis	61	Director
Gene Riechers (2)	51	Director

(1) Chairman of the Corporate Governance and Nominating Committee.

(2) Chairman of the Compensation Committee and member of the Audit Committee.

James P. Gauer has been a director of webMethods since August 2000. Since April 1999, he has served as a general partner of Palomar Ventures, a venture capital investment firm, and, from December 1992 to April 1999, he was a general partner of Enterprise Partners. Mr. Gauer is also a director of several privately held companies. Mr. Gauer holds a B.A. in Mathematics from the University of California, Los Angeles.

Jack L. Lewis has been a director of webMethods since January 1997. Mr. Lewis also served as our corporate Secretary from January 1998 until May 2003. He has been a partner in the Northern Virginia office of the law firm of Morrison & Foerster LLP since March 2005. He previously was a partner with Shaw Pittman LLP from 1999 to 2005 and, before that, a stockholder in the law firm of Tucker, Flyer & Lewis, P.C., which he co-founded in 1975. Mr. Lewis holds an A.B. in History from Brown University and a J.D. from Cornell Law School.

Gene Riechers has been a director of webMethods since November 1997. Since April 2002, Mr. Riechers has been a general partner of Valhalla Partners, a venture capital firm. From June 2001 to April 2002, he was a general partner of Broadreach Partners, which provided consulting services to emerging technology companies, and, from April to June 2001, he was an independent consultant to emerging technology companies. From 1996 to April 2001, Mr. Riechers served as a Managing Director of FBR Technology Venture Partners L.P., a venture capital fund. From December 1995 to December 1996, Mr. Riechers served as the Chief Financial Officer of CyberCash, Inc., an Internet transaction processing company. From September 1993 to December 1995, he served as Chief Financial Officer and Vice President, Business Development of Online Resources & Communications Corp., an online banking company. He has a B.S. in Accounting from Pennsylvania State University and an MBA from Loyola College.

The incumbent Class III directors, whose terms expire at our 2008 annual meeting of stockholders, and certain information about them, are set forth below.

Name	Age	Current Position with webMethods
Jerry J. Jasinowski (1)(2)	67	Director
David Mitchell	41	Director, President and Chief Executive Officer
Vincent J. Mullarkey (3)	58	Director

(1) Member of the Corporate Governance and Nominating Committee.

(2) Member of the Audit Committee.

(2) Chairman of the Audit Committee.

Jerry J. Jasinowski has been a director of webMethods since July 2001. Mr. Jasinowski served as the President of the National Association of Manufacturers (the "NAM"), the largest U.S. business advocacy and policy association, from 1990 to 2004. Since 2004, he has served as President of the Manufacturing Institute, the research and education arm of the NAM. Under Mr. Jasinowski's leadership, the NAM has helped shape national policies on a broad range of issues affecting productivity and economic growth, including trade, taxes, technology, energy policy, legal reform and employee training. He has also transformed the NAM operationally in terms of its major communications, advocacy, economic and manufacturing research, grassroots activity and new business development. Under Jasinowski's leadership, the NAM has become recognized as the voice of American manufacturing in the U.S. and around the world. Mr. Jasinowski is also an author and commentator on economic, industrial and governmental issues. He is a director of Harsco Corporation, The Phoenix Companies Inc., The Timken Company and serves on the advisory boards of several companies. Mr. Jasinowski received a B.A. in Economics from Indiana University, a M.A. in Economics from Columbia University, and is a graduate of the Harvard Business School's Advanced Management Program.

David Mitchell has been a director of webMethods since October 2, 2004. He began his career at webMethods in December 1997 as Vice President, Sales and served as Vice President, Worldwide Sales from September 1999 through December 1999. He served as Chief Operating Officer from January 2000 to October 2004, as President since January 2001 and as Chief Executive

Officer since October 2004. Throughout his tenure at webMethods, Mr. Mitchell has played a major role in all facets of our business and in overseeing webMethods' global sales organization, as well as our marketing, industry solutions, business development, and customer service operations. Prior to joining

webMethods, Mr. Mitchell held a variety of executive positions at various companies, including serving from 1993 to 1995 as President and Chief Executive Officer of VYCOR Corporation, which was acquired in 1995 by McAfee Software. Mr. Mitchell holds a B.S. in Marketing from Virginia Commonwealth University.

Vincent J. Mullarkey has been a director of webMethods since May 2005. Mr. Mullarkey was the Senior Vice President, Finance and Chief Financial Officer of Digital Equipment Corporation from 1994 until his retirement in September 1998, and served with Digital Equipment Corporation in other positions from 1971 to 1994. After leaving Digital Equipment Corporation, Mr. Mullarkey has also been involved with several companies in the real estate and marine industries. He is a director of NetScout Systems, Inc. Mr. Mullarkey holds a B.S. in Accounting and Finance from Bentley College.

BOARD OF DIRECTORS

Corporate Governance

We are currently managed by a ten-member Board of Directors. The Board has adopted a set of Corporate Governance Guidelines, which, along with the written charters for our Board committees described below, provide the framework for the Board's governance of webMethods. Our Corporate Governance Guidelines and committee charters are posted in the investor relations section of our website at *www.webMethods.com/investors/* and are available upon written request to our General Counsel. In addition, the Charter of the Audit Committee is attached to this proxy statement as Annex B.

Independence and Composition

The National Association of Securities Dealers listing standards, which we refer to as the NASD listing standards, require that a majority of our Board of Directors are "independent" directors, as that term is defined in the NASD listing standards. In addition, our Corporate Governance Guidelines require that we strive to have enough "independent" directors on the Board so that, in the event one "independent" director was to resign, die, or be removed from the Board, a majority of the remaining Board would still consist of "independent" directors.

The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that James Gauer, Peter Gyenes, William Halter, Jerry Jasinowski, Vincent Mullarkey, Gene Reichers and Bill Russell, representing a majority of our Board of Directors, are "independent" as that term is defined in the NASD listing standards. Mr. Russell served as the non-executive Chairman of the Board of Directors during fiscal year 2006. The Board made its determination based on information furnished by all directors regarding their relationships with the Company and research conducted by management. In addition, the Board consulted with the Company's counsel to ensure that the Board's determination would be consistent with all relevant securities laws and regulations as well as the NASD listing standards.

Meetings and Attendance

The Board of Directors met eight times, including telephone conference meetings, and acted three times by written consent, during fiscal year 2006. During that year, no current director attended fewer than 75% of the aggregate of (a) the total number of meetings of the Board held while he was a director and (b) the total number of meetings held by all committees of the Board on which he then served. Our Corporate Governance Guidelines provide that it is the responsibility of individual directors to make themselves available to attend scheduled and special Board and committee meetings on a consistent basis. The Company requests that Board members attend the annual meeting of stockholders. However, the Company also recognizes that personal attendance by all directors is not always possible. All of the nine members then serving on our Board of Directors attended the 2005 annual meeting of stockholders.

In addition, the non-management members of the Board of Directors met in executive session five times during fiscal year

2006. Pursuant to our Corporate Governance Guidelines, Mr. Russell, as the non-executive Chairman of the Board of Directors, presided when the Board met in executive session.

Communications with the Board of Directors

Stockholders and interested parties may send communications to the Board of Directors by writing to them at webMethods, Inc., Attention: General Counsel, 3877 Fairfax Ridge Road, South Tower, Fairfax, Virginia 22030. All communications that are received by the General Counsel for the Board's attention will be forwarded to the non-executive Chairman of the Board or the chair of the committee of the Board with authority to consider the subject matter of the communication.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has three standing committees, the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that all current members of each committee are "independent" as that term is defined in the NASD listing standards.

Audit Committee

The Audit Committee is responsible for the selection of the independent public accountants for webMethods and assists the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information provided by webMethods, webMethods' systems of internal controls and webMethods' auditing, accounting and financial reporting processes generally.

The Audit Committee consists of Vincent Mullarkey (Chairman), Peter Gyenes, Jerry Jasinowski and Gene Riechers. Mr. Jasinowski and Mr. Riechers served as members of the Audit Committee during all of fiscal year 2006. Mr. Mullarkey became a member of the Audit Committee in May 2005, filling the vacancy created by the resignation of Gary Fernandes. Mr. Gyenes became a member of the Audit Committee in May 2006. The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that all current members of the Audit Committee are "independent" as that term is defined in the NASD listing standards and meet the other requirements for audit committee members under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC thereunder, which we collectively refer to as the Exchange Act, and the NASD listing standards. The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, also has determined that Peter Gyenes, Vincent Mullarkey and Gene Riechers each qualify as an "audit committee financial expert," as defined in the Exchange Act. The Audit Committee met informally on a number of occasions, held 14 formal meetings and took action by written consent one time during fiscal year 2006.

Compensation Committee

The Compensation Committee reviews and makes recommendations regarding webMethods' stock plans and makes decisions concerning salaries and incentive compensation for executive officers of webMethods, Inc. The Compensation Committee consists of Gene Riechers (Chairman), Peter Gyenes, William Halter and Bill Russell. Mr. Riechers, Mr. Halter and Mr. Russell served as members of the Audit Committee during all of fiscal year 2006. Mr. Gyenes became a member of the Compensation Committee in May 2006. The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that all current members of the Compensation Committee are "independent" as that term is defined in the NASD listing standards. The Compensation Committee met informally on a number of occasions, held four formal meetings and took action by written consent six times during fiscal year 2006.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee considers and makes recommendations to the Board concerning the appropriate size, function and needs of our Board of Directors, including screening and nominating candidates to fill positions on the Board and recommending nominees for approval by our Board of Directors and stockholders. The Corporate Governance and Nominating Committee also assists the Board of Directors in fulfilling its oversight responsibilities regarding a code of conduct for webMethods' executives and staff and Board corporate governance. The three nominees for re-election to the Board of Directors at our 2006 annual meeting of stockholders were unanimously recommended by the Corporate Governance and Nominating Committee.

14604436070

Our Corporate Governance Guidelines provide that the Corporate Governance and Nominating Committee endeavor to identify individuals to serve on the Board who have expertise that is useful to webMethods and complementary to the background, skills and experience of other Board members. The assessment of the Corporate Governance and Nominating Committee of the composition of the Board includes: (a) skills – business and management experience, industry experience, accounting experience, finance and capital markets experience, and an understanding of corporate governance regulations and public policy matters, (b) characteristics – ethical and moral standards, leadership abilities, sound business judgment, independence and innovative thought, and (c) composition – diversity, age and public company experience. The principal qualification for a director is the ability to act in the best interests of webMethods, Inc. and its stockholders. During fiscal year 2006, we retained a third-party search firm to assist the Corporate Governance and Nominating Committee in identifying and evaluating potential candidates for election to the Board of Directors.

The Corporate Governance and Nominating Committee accepts recommendations for director candidates from stockholders, and information regarding the submission of information regarding possible candidates is included in this proxy statement under the heading "Stockholder Proposals and Nominations for Presentation at the 2007 Annual Meeting of Stockholders." After candidates are identified, the Corporate Governance and Nominating Committee conducts an evaluation of each candidate, which generally includes interviews with committee members and members of management, as well as background and reference checks. There is anticipated to be no difference in the evaluation process of a candidate recommended by a stockholder as compared to the evaluation process of a candidate identified by management, by members of the Corporate Governance and Nominating Committee, by other directors or by any third party engaged to conduct a search for possible candidates.

The Corporate Governance and Nominating Committee consists of James Gauer (Chairman), William Halter and Jerry Jasinowski, all of whom served as members of the committee during all of fiscal year 2006. Gary Fernandes also served on the Corporate Governance and Nominating Committee until he resigned as a director in May 2005. The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that all current members of the Corporate Governance and Nominating Committee are "independent" as that term is defined in the NASD listing standards. The Corporate Governance and Nominating Committee met informally on a number of occasions and held one formal meeting and took action by written consent one time during fiscal year 2006.

DIRECTOR COMPENSATION

Non-management directors receive cash compensation, as described in the following table, from webMethods for their services as members of the Board of Directors and for their service on permanent and temporary committees of the Board and receive stock option grants, as described in the following table, under the Expiring Plan. All stock option grants are made at fair market value on the date of grant. In addition, all members of the Board of Directors are reimbursed for expenses in connection with attendance at Board of Directors and committee meetings.

Position	Annual Fee	Initial Stock Option Grant	Annual Stock Option Grant
Non-executive Chairman of the Board	$70,000	—	25,000 shares
Service as a non-executive member of the Board of Directors.	$25,000	55,188 shares	15,000 shares
Audit Committee			
Chairman	$10,000	—	—
Member	$ 5,000	—	—
Compensation, Corporate Governance and Nominating and			

AJS000301

designated temporary committees			
Chairman	$ 7,500	—	—
Member	$ 5,000	—	—

CODE OF ETHICS

Our Board of Directors has adopted a Code of Ethics that is applicable to our employees, executive officers and directors. The Code of Ethics is posted in the investor relations section of our website at *www.webMethods.com/investors/* and is available upon written request to our General Counsel. We intend to satisfy the disclosure

requirements under Federal securities laws regarding any amendment to, or waiver from, any provision of the Code of Ethics regarding the principal executive officer, principal financial officer or principal accounting officer or controller of webMethods or any person performing a similar function by posting on our website at *www.webMethods.com/investors/* within the time periods prescribed by law.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee. Messrs. Riechers, Gyenes, Haltor and Russell served as the members of the Compensation Committee of our Board of Directors during fiscal year 2006. None of these individuals has ever served as one of our officers or employees.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table contains information regarding the beneficial ownership of webMethods, Inc. common stock as of June 30, 2006 by:

- each person known by us to own beneficially more than five percent (5%) of our common stock;
- each of our directors;
- each of the individuals named in the Summary Compensation Table in this proxy statement; and
- all of our current directors and executive officers as a group.

Under the rules of the Securities and Exchange Commission, beneficial ownership includes voting or investment power with respect to securities and includes the shares issuable under stock options that are exercisable within sixty (60) days of June 30, 2006. Those shares issuable under stock options are deemed outstanding for computing the percentage of each person holding options but are not deemed outstanding for computing the percentage of any other person. The percentage of beneficial ownership in the following table is based upon 55,201,899 shares of our common stock outstanding as of June 30, 2006.

Unless otherwise indicated, the address for each person known by us to own beneficially more than five percent of our common stock and each director and executive officer is: c/o webMethods, Inc., 3877 Fairfax Ridge Road, Fairfax, Virginia 22030. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting power and investment power with respect to all shares of common stock.

	Shares Beneficially Owned

Name of Beneficial Owner	Number	Percent
James P. Gauer (1)	159,066	*
Jim Green (2)	413,793	*
Peter Gyenes (3)	10,349	*
William A. Halter (4)	98,938	*
Jerry J. Jasinowski (5)	114,538	*
Jack L. Lewis (6)	114,530	*
David Mitchell (7)	995,045	1.8
Vincent J. Mullarkey (8)	40,495	*
Gene Riechers (9)	144,063	*
Bill Russell (10)	145,604	*
Richard Chiarello (11)	475,425	*
Mark Wabschall (12)	66,725	*
Kristin Weller Muhlner (13)	445,655	*
Douglas W. McNitt (14)	696,973	1.2
All directors and executive officers as a group (14 persons) (15)	3,921,199	7.1

1204436078

* Less than one percent.

(1) Includes 113,938 shares subject to option exercise within 60 days of June 30, 2006.

(2) Includes 299,855 shares held by a family trust and 113,938 shares subject to option exercise within 60 days of June 30, 2006.

(3) Includes 8,349 shares subject to option exercise within 60 days of June 30, 2006.

(4) Includes 98,938 shares subject to option exercise within 60 days of June 30, 2006.

(5) Includes 113,938 shares subject to option exercise within 60 days of June 30, 2006.

(6) Includes (a) 67,948 shares subject to option exercise within 60 days of June 30, 2006 and (b) 46,582 shares held by a family trust for which Mr. Lewis is trustee.

(7) Includes 982,418 shares subject to option exercise within 60 days of June 30, 2006.

(8) Includes 40,495 shares subject to option exercise within 60 days of June 30, 2006

(9) Includes 113,938 shares subject to option exercise within 60 days of June 30, 2006

(10) Includes 145,604 shares subject to option exercise within 60 days of June 30, 2006.

(11) Includes 470,069 shares subject to option exercise within 60 days of June 30, 2006.

AJS000303

(12) Includes 63,192 shares subject to option exercise within 60 days of June 30, 2006.

(13) Includes 441,610 shares subject to option exercise within 60 days of June 30, 2006.

(14) Includes 695,652 shares subject to option exercise within 60 days of June 30, 2006.

(15) Includes 3,470,027 shares subject to option exercise within 60 days of June 30, 2006.

EXECUTIVE OFFICERS

Our executive officers and their ages and positions as of June 30, 2006 are as follows:

Name	Age	Position
David Mitchell	41	President and Chief Executive Officer
Richard Chiarello	53	Executive Vice President, Worldwide Operations and Chief Operating Officer
Mark Wabschall	50	Executive Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer
Kristin Weller Muhlner	35	Executive Vice President, Product Development
Douglas McNitt	41	General Counsel, Executive Vice President and Secretary

The following is a summary of the experience of our executive officers. The experience of Mr. Mitchell is described in the section of this proxy statement entitled "Board of Directors."

Richard Chiarello joined webMethods in April 2004 as Executive Vice President, Worldwide Operations and became Chief Operating Officer in November 2005. From October 2002 to 2004, he served as Senior Vice President, Worldwide Sales, of Siebel Systems, Inc., where he managed all aspects of the company's worldwide sales operations. From December 1998 to September 2002, he served as President of ATL LLC Consulting, a private sales consulting company founded by Mr. Chiarello to serve clients in the information technology industry. He also served as President and Chief Operating Officer of AMC Computer Corporation, a hardware and professional services company, from October 2000 to June 2001. From December 1985 to December 1998, Mr. Chiarello held several sales, marketing and executive management positions at Computer Associates International, Inc., the most recent of which was Executive Vice President and General Manager, Worldwide Sales and Channels. Prior to joining Computer

Associates International, Inc., Mr. Chiarello served in a variety of sales positions with IBM Corporation from 1977 to 1985. Mr. Chiarello holds a B.A. from Queens College in New York and has completed executive management training in the IBM Management Training program and with Babson Business School, Boston, Massachusetts.

Mark Wabschall, a Certified Public Accountant, joined webMethods as Senior Vice President, Finance in July 2004. He became Chief Accounting Officer in May 2005, became Chief Financial Officer in October 2005 and became Executive Vice President and Treasurer in December 2005. He served as Vice President, Finance for Innovative Technology Application, Inc., a diversified technology firm, from 2003 to July 2004, and he served as President of Delphi Business Solutions, LLC, a financial consulting firm from 2000 to 2003. From 1994 to 2000, he held senior financial and operational management positions with the Baan Company, including Senior Vice President of Operations, Vice President of Investor Relations and Chief Financial Officer of the Americas. He also served as an audit partner with Arthur Andersen, a major international public accounting firm. Mr.

Wabschall holds a B.S. in Business Administration from the Ohio State University.

Kristin Weller Muhlner joined webMethods as Vice President of Professional Services and Customer Care in September 1998. She became Vice President of Product Development in January 2000, Senior Vice President of Product Development in October 2001 and Executive Vice President of Product Development in March 2003. From 1994 to September 1998, Ms. Muhlner served as Senior Manager for Deloitte & Touche Consulting Group, where she participated in the development of their enterprise resource planning (ERP) implementation methodology. Ms. Muhlner holds a B.A. in Economics from Rhodes College.

Douglas McNitt joined webMethods in October 2000 as General Counsel, became an Executive Vice President in January 2002, and became Secretary in May 2003. Mr. McNitt served in various capacities, including Senior Counsel and Assistant General Counsel for America Online, Inc. during his service there from December 1997 to September 2000. From May 1996 to December 1997, he was an associate with the law firm of Tucker, Flyer & Lewis, a professional corporation, and was an associate with the law firm of McDermott, Will & Emery from April 1994 to May 1996. Mr. McNitt holds a B.A. from Stanford University and a J.D. from Notre Dame Law School.

EXECUTIVE COMPENSATION

The following table sets forth the annual and long-term compensation paid or awarded for the fiscal years ended March 31, 2006, 2005 and 2004 to our Chief Executive Officer and our four other most highly compensated executive officers. Those five individuals are collectively referred to as the Named Officers.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Year Ended March 31	Salary(1)	Bonus(2)	Other Annual Compensation	Securities Underlying Options (#)	All Other Compensation
David Mitchell	2006	$425,000	$ 48,811	—	225,000	—
President and Chief Executive Officer	2005	$334,501	—	—	860,000	—
	2004	$250,012	—	—	67,600	—
Richard Chiarello	2006	$371,617	$379,379	$63,731(3)	122,500	—
Executive Vice President, Worldwide	2005	$350,000	$301,716	$40,472(3)	525,000	—
Operations and Chief Operating Officer	2004(4)	—	—	—	—	—
Mark Wabschall	2006	$240,429	$ 19,885	—	177,500	—
Executive Vice President and Chief	2005	$141,026	—	—	100,000	—
Financial Officer	2004(5)	—	—	—	—	—

		Annual Compensation		Long-Term Compensation Awards	
	Year			Securities	All Other
	Ended		Other Annual	Underlying	Compen-

Name and Principal Position	March 31	Salary(1)	Bonus(2)	Compensation	Options (#)	sation
Kristin Weller Muhlner	2006	$226,887	$18,000	—	142,500	—
Executive Vice President, Product	2005	$250,001	—	—	172,000	—
Development	2004	$180,012	—	—	76,400	—
Douglas McNitt	2006	$265,833	$19,886	—	112,500	—
General Counsel, Executive Vice	2005	$220,001	—	—	22,000	—
President and Secretary	2004	$167,362	$15,000	—	142,000	—

(1) The current base salaries of the executive officers are: Mr. Mitchell - $450,000; Mr. Chiarello - $385,000; Mr. Wabschall - $275,000; Ms. Muhlner - $262,500; Mr. McNitt - $275,000.

(2) On July 6, 2006, the Compensation Committee of our Board of Directors approved the webMethods' Executive Incentive Plan (the "EIP"), pursuant to which fiscal year 2007 bonus compensation for each of the Named Officers, other than Mr. Chiarello, will be determined. Under the EIP, two-thirds of the annual target bonus for each participant is based on our achievement of established revenue and earnings per share goals and one-third of the annual target bonus is based on the achievement of established individual performance objectives. The individual performance objectives for the Chief Executive Officer are determined by the Compensation Committee, and the individual performance objectives for the other executive officers are determined by the Chief Executive Officer in consultation with the Compensation Committee. The target 2007 bonus amount under the EIP for Mr. Mitchell is 100% of his base salary; the target 2007 bonus amount for each of the other participating Named Officers is 50% of such officer's base salary. If we exceed our financial objectives, it is possible for the actual bonus amount to exceed the target bonus amount, subject to the decision of the Compensation Committee. Under a separate arrangement approved by the Compensation Committee on June 15, 2006, fiscal year 2007 bonus compensation for Mr. Chiarello is determined quarterly, based in part on a percentage of our license revenue, total revenue and earnings per share and based in part on our achievement of established license revenue, total revenue and earnings per share goals. The target quarterly bonus amount for Mr. Chiarello in fiscal year 2007, assuming our attainment of 100% of performance objectives, is $87,500. The actual quarterly bonus amount may exceed the target quarterly bonus amount if we exceed one or more of the performance objectives.

(3) Amount for 2006 represents housing allowance of $39,960 plus $23,771 for related income taxes; amount for 2005 represents housing allowance of $29,325 plus $11,147 for related income taxes.

(4) Joined webMethods in April 2004.

(5) Joined webMethods in July 2004.

STOCK OPTION GRANTS IN FISCAL YEAR 2006

The following table sets forth each grant of stock options during fiscal year 2006 to each of the Named Officers. No stock appreciation rights were granted during fiscal year 2006. The stock options listed in the table have a term of ten years and vest as described in the notes to the table.

The percentage numbers are based on stock options to purchase a total of 6,863,079 shares of webMethods' common stock granted to eligible participants under the Expiring Plan during fiscal year 2006. The exercise price of each stock option was equal to the fair market value of a share of webMethods' common stock as valued by the Compensation Committee on the date of the grant. The exercise price may be paid in cash or by such other means as are specified in the stock option agreement relating to the grant. The holder of the stock option is responsible for payment of any federal and state income tax liability incurred by the holder in connection with such exercise.

The potential realizable value is calculated based on a ten-year term of the stock option at the time of grant. Stock price appreciation of 5% and 10% is assumed because of SEC rules and does not represent our prediction of our stock price performance. These amounts represent hypothetical gains that could be achieved for the respective

stock options if exercised at the end of the stock option term. These gains are based on assumed rates of stock price appreciation of 5% and 10%, compounded annually from the date the respective stock options were granted to their expiration date, based upon the market value of our common stock on the option grant date.

	INDIVIDUAL GRANTS				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted in Fiscal Year 2006	Exercise Price ($/Share)	Expiration Date	5%	10%
David Mitchell	150,000(1)	2.19	$5.89	July 11, 2015	$555,628	$ 1,408,071
	75,000(2)	1.09	$7.94	December 2, 2015	$374,507	$ 949,074
Richard Chiarello	62,500(1)	0.91	$5.89	July 11, 2015	$231,512	$ 586,696
	60,000(2)	0.87	$7.94	December 2, 2015	$299,605	$ 759,259
Mark Wabschall	35,000(2)	0.51	$5.07	June 8, 2015	$111,597	$ 282,810
	62,500(1)	0.91	$5.89	July 11, 2015	$231,512	$ 586,696
	80,000(2)	1.17	$7.94	December 2, 2015	$399,474	$ 1,012,345
Kristin Weller Muhlner	62,500(1)	0.91	$5.89	July 11, 2015	$231,512	$ 586,696
	30,000(1)	0.44	$5.89	July 18, 2015	$111,126	$ 281,614
	50,000(2)	0.73	$7.16	October 3, 2015	$225,144	$ 570,560
Douglas McNitt	35,000(2)	0.51	$5.07	June 8, 2015	$111,597	$ 282,810
	15,000(2)	0.22	$5.07	June 8, 2015	$ 47,827	$ 121,204
	62,500(1)	0.91	$5.89	July 11, 2015	$231,512	$ 586,696

(1) Vesting of stock option occurs ratably over the 36 months following the option grant date.

(2) Vesting of stock option occurs ratably over the 48 months following the option grant date.

STOCK OPTION EXERCISES IN FISCAL YEAR 2006 AND VALUES AT END OF FISCAL YEAR 2006

The following table sets forth for each of the Named Officers information concerning stock options exercised during fiscal year 2006 and the number and value of securities underlying unexercised stock options that are held by the Named Officers as of March 31, 2006.

Number of Securities

Underlying

Name	Shares Acquired on Exercise	Value Realized(1)	Unexercised Options at March 31, 2006 Vested	Unvested	Value of Unexercised In-the-Money Options at March 31, 2006(2) Vested	Unvested
David Mitchell	163,209	$268,666	964,293	493,752	$ 103,140	$ 1,224,692
Richard Chiarello	—	$ —	439,512	207,988	$ 145,684	$ 389,241
Mark Wabschall	35,000	$107,294	32,116	210,384	$ 84,650	$ 474,175
Kristin Weller Muhlner	30,000	$153,806	452,200	118,905	$ 440,953	$ 240,520
Douglas McNitt	—	$ —	681,762	89,238	$ 66,540	$ 259,085

(1) Represents the difference between the stock option exercise price per share and the fair market value of webMethods' common stock on the date of exercise.

(2) Calculated on the basis of $8.42 per share, the closing price quoted on the Nasdaq National Market for our common stock on March 31, 2006, less the applicable stock option exercise price per share, multiplied by the number of shares underlying the unexercised in-the-money stock options.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information concerning our securities authorized for issuance under equity compensation plans at June 30, 2006.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	17,171,844(1)	$10.6656(1)	7,626,394(1)
Equity compensation plans not approved by securities holders	84,855(2)	28.2676(2)	—
Total	17,256,699	$10.7522	7,626,394

(1) Excludes our Employee Stock Purchase Plan, under which, as of March 31, 2006 a total of 6,000,000 shares of our common stock have been reserved for issuance, 1,663,191 shares had been issued at an average purchase price of $9.606 and 4,336,809 shares remained available for future issuance.

(2) Consists only of shares of our common stock to be issued upon the exercise of stock options issued by Active Software under its 1999 Stock Option Plan, its 1996 and 1996A Stock Option Plans and its 1999 Director Option Plan, and stock options assumed by Active Software that had been granted by the respective company under the TransLink Software, Inc. Stock Option Plan, Alier, Inc. 1997 Stock Option Plan and Alier, Inc. 1996 Stock Option Plan, all such options having

been granted prior to our acquisition of Active Software in August 2000.

EMPLOYMENT AGREEMENTS AND CHANGE OF CONTROL ARRANGEMENTS

Executive Agreements

None of the Named Officers has an employment agreement with webMethods, Inc. These officers may resign, or we may terminate their employment, at any time. David Mitchell, Rich Chiarello, Mark Wabschall, Kristin Muhlner and Douglas McNitt each is party to an agreement with us under which the executive may continue to receive base salary and benefits in certain circumstances after resignation or termination of employment. Under those agreements, we are obligated for one year or, if earlier, until the executive accepts full-time employment with another employer, to pay the executive his or her then-current base salary and provide him or her with all the benefits provided to him or her immediately prior to the termination of employment if the executive is terminated without "cause" or resigns for "good reason." For purposes of the agreements, (i) "cause" means the executive's (a) theft, fraud, material dishonesty or gross negligence in the conduct of our business, (b) continuing neglect of the executive's duties and responsibilities that has a material adverse effect on webMethods (which neglect is not cured following notice), or (c) conviction of a felony (not involving an automobile), and (ii) "good reason" means (a) a reduction in base salary, (b) a reduction or a change in the executive's authorities, duties or job responsibilities or (c) a geographic relocation without consent of more than 30 miles from the executive's current office location.

If there is a "change in control," and within one year the executive is terminated without cause or resigns for good reason, we are also obligated to pay one and one-half times the value of the executive's then-current annual base salary and annual on-target bonus or incentive compensation amount, and to provide for 18 months the life, disability, accident and health insurance benefits provided to the executive immediately prior to the termination of employment. For purposes of the agreements, a "change of control" occurs if (i) any person becomes the beneficial owner, directly or indirectly, of securities of webMethods representing at least 50% of the combined voting power of the then-outstanding securities of webMethods, (ii) in any two year period, persons who constitute our Board of Directors at the beginning of that period cease to constitute a majority of the Board of Directors unless each director who was not a member of the Board at the beginning of the two-year period was elected in advance by at least two-

thirds of the directors then in office who were serving at the beginning of the two-year period, (iii) our stockholders approve a merger or consolidation involving webMethods and resulting in a change of ownership of a majority of our then-outstanding shares of capital stock or (iv) our stockholders approve a plan of liquidation or dissolution of webMethods or the sale or disposition of all or substantially all of the assets of webMethods.

Stock Option Agreements

Stock options granted to employees (including to each Named Officer) generally provide for accelerated vesting if, within one year after a "change of control" of webMethods, the employee is terminated without "cause" (as defined in the stock option agreement) or resigns within 90 days after "good reason" (as defined in the agreement) first exists. For purposes of these agreements, a "change of control" occurs if (i) a person or group acquires direct or indirect ownership of not less than a majority of the then-outstanding voting securities of webMethods, (ii) our stockholders approve a merger or consolidation involving webMethods and resulting in a change of ownership of a majority of the then-outstanding shares of voting securities of webMethods or (iii) our stockholders approve a plan of liquidation or dissolution of webMethods or the sale or disposition of all or substantially all of the assets of webMethods.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee is comprised of Gene Riechers (Chairman), Peter Gyenes, William Halter and Bill Russell. Upon advice from the Corporate Governance Committee, a majority of the full Board of Directors selects members of the Compensation Committee annually. Mr. Riechers, Mr. Halter and Mr. Russell served as members of the Compensation Committee during all of our fiscal year ended March 31, 2006; Mr. Gyenes joined the Compensation Committee in May 2006.

COMPENSATION PHILOSOPHY AND OBJECTIVES

The Compensation Committee of our Board of Directors determines the compensation of our Chief Executive Officer and reviews and approves the compensation of our other executive officers and the initial compensation of other individuals reporting directly to the Chief Executive Officer. The Compensation Committee also reviews and approves various other compensation policies and programs and administers our equity-based incentive compensation plans, and will administer the 2006 Omnibus Stock Incentive Plan (the "New Plan") if the New Plan is approved by the stockholders.

The primary objectives of our executive compensation policies are:

- to attract, motivate and retain a highly qualified executive management team;
- to link executive compensation to our financial performance as well as to defined individual performance objectives;
- to compensate competitively with the practices of peer companies that are determined, to the extent practicable, to be similarly situated, or that represent likely sources of, or competitors for, our executive talent;
- to create incentives designed to enhance stockholder value;
- to review the performance of the our Chief Executive Officer and to review the Chief Executive Officer's evaluation of our other executive officers; and
- to review the reasonableness of compensation paid to the our Chief Executive Officer and our other executive officers.

We compete in a very aggressive and dynamic industry and, as a result, believe that hiring, motivating and retaining quality employees, particularly senior management, sales personnel and technical personnel, are factors key to our future success. The Compensation Committee's compensation philosophy seeks to align the interests of stockholders and management by tying compensation to our financial performance and other metrics and criteria

that relate to building long-term shareholder value, either directly in the form of salary and bonuses paid in cash or indirectly in the form of appreciation of stock options or stock awards granted to employees through our equity incentive programs.

The Compensation Committee reviews the reasonableness of compensation paid to our executive officers and how the overall level of compensation paid to executive officers compares to that paid by peer companies. In determining the present compensation packages of management, the Compensation Committee considered, among other factors, the achievement of pre-determined financial objectives; operational improvements throughout the company; the expansion of existing alliances and the creation of new alliances; and the introduction of significant product developments and enhancements. The success of these initiatives is a significant factor in our overall financial and market performance and, therefore, was operative in determining the compensation of the executive management team. In addition, an independent executive compensation firm provided the Compensation Committee with a survey of executive compensation, which it considered in establishing the types and levels of Chief Executive Officer and senior executive compensation.

EXECUTIVE OFFICER COMPENSATION

Our compensation program for executive officers is comprised of three components: base salary, performance-based cash incentive compensation and longer-term equity-based incentive awards. The summary below describes each of these components and the factors considered by the Compensation Committee with respect to each during fiscal year 2006. In addition, executive officers are eligible to participate in a number of compensation plans or programs that are generally available to our other employees, including medical, dental and vision insurance plans, group life and disability plans, a 401(k) plan and webMethods' Employee Stock Purchase Plan.

Base salary

Base salary for each executive officer reflects the executive's level of responsibility, qualifications and experience, the strategic goals for which the executive has primary responsibility and comparable salary practices of peer companies. Base salaries are reviewed annually, and merit salary increases may be approved by the Compensation Committee based upon each executive's performance and contributions, the executive's ongoing duties, responsibilities and functions, the executive's efforts that enhance our operations and market recognition and our general financial performance. The factors and relative weight accorded to each by the Compensation Committee vary for each executive officer and from year to year. The Compensation Committee also considers information and advice from independent compensation consultants engaged from time to time to review and advise on market data and salary trends among peer companies.

Performance-based cash incentive compensation

The Compensation Committee believes that performance-based cash incentive awards paid on an annual or quarterly basis provide substantial motivation to executive officers to address and achieve established performance goals. Accordingly, a significant portion of each executive officer's potential total annual cash compensation is dependent upon achievement of established performance goals. Cash incentive compensation for executive officers generally is tied to our achievement of established revenue and earnings per share objectives; a smaller portion is payable upon achievement of established individual performance objectives. In general, payment of any portion of incentive compensation requires substantial achievement of the established revenue and earnings per share objectives.

On July 6, 2006, the Compensation Committee adopted the webMethods' Executive Incentive Plan (the "EIP") for our Chief Executive Officer and other executive officers designated by the Compensation Committee. The EIP is effective beginning with our fiscal year 2007. Under the EIP, two-thirds of the annual target bonus for each participant is based on our achievement of established revenue and earnings per share goals and one-third of the annual target bonus is based on the achievement of established individual performance objectives. In setting annual financial objectives for executive bonuses under the EIP, the Compensation Committee references our annual business plan. The target bonus for an executive is intended to relate to his or her potential impact on corporate results, and the percentage of the target bonus actually received is based on the corporate objectives actually achieved. The individual performance objectives for the Chief Executive Officer are determined by the Compensation Committee,

and the individual performance objectives for the other executive officers are determined by the Chief Executive Officer in consultation with the Compensation Committee. Target compensation under the EIP for fiscal year 2007 ranges from 50% to 100% of the base salary of the executive officers. If we meet or exceed our financial objectives, it is possible for the actual bonus amount to exceed the target amount, subject to the decision of the Compensation Committee. The Compensation Committee attempts to set aggressive but realizable objectives that will result, directly or indirectly, in increased revenues and improved profitability. In order to achieve the purposes of the plan, the corporate objectives and the corresponding bonus targets will be communicated to executives at the beginning of each fiscal year. Bonus compensation for the Chief Operating Officer is determined quarterly, under a separate arrangement, based in part on a percentage of licence revenue, total revenue and earnings per share and based in part on our achievement of established license revenue, total revenue and earnings per share goals.

Long-term equity-based incentive awards

Equity-based incentive awards are provided through stock option awards under the webMethods, Inc. Amended and Restated Stock Option Plan (the "Expiring Plan"). The Compensation Committee believes that equity-based incentive awards align the interests of executive officers with those of our stockholders and provide incentives to executive officers to enhance stockholder value because of the direct relationship between the market price of our common stock and the value of each equity-based award.

When determining the appropriate level of stock option grants, the Compensation Committee utilizes guidelines that provide ranges of recommended initial stock option grants for each level of position, as well as ranges of recommended stock option grants applicable to promotions and for our annual stock option program. In addition, the Compensation Committee considers the executive officer's position, duties, responsibilities and functions and the stock-based incentive award practices of peer companies. The Compensation Committee also considers and grants additional stock options to executive officers from time to time as believed appropriate for further incentive or retention purposes. In those instances, the Compensation Committee considers the factors stated above and the executive's performance and contributions, as well as the executive's existing level of equity-based incentive awards, including the actual and relative holdings of stock options by the executive, the exercise prices of those options, the percentage of those stock options that are vested and the remaining vesting period for the unvested options.

Each stock option grant to an employee or executive officer under the Expiring Plan allows the recipient to acquire shares of our common stock over a period of time, generally ten years, at a fixed price per share, which is the fair market value of a share of our common stock on the date of the stock option grant. Stock options granted to an employee or executive officer during fiscal year 2006 generally vest ratably over three or four years so long as the recipient continues to be employed by us; initial grants, however, typically vest 25% on the first anniversary of the grant, and ratably over the remaining three years so long as the recipient continues to be employed by us. Because of the vesting period and the term of the stock option, stock options granted under the Expiring Plan are intended to focus recipients' attention on our longer-term growth and performance and to provide incentive to continue employment with us in order to recognize the longer-term potential for appreciation of the stock option award.

After October 31, 2006, we will no longer be eligible to issue additional stock option awards under the Expiring Plan. Consequently, the Board of Directors has approved and recommended to the stockholders for approval the New Plan. The philosophy behind the New Plan is much the same as the philosophy behind the Expiring Plan. However, the New Plan offers a greater diversity of equity incentive awards than are currently authorized under the Expiring Plan. In addition to stock option awards, the New Plan will also permit the Compensation Committee to grant awards of restricted stock, stock appreciation rights, stock bonus awards, deferred shares and performance shares to directors, executives and employees alike.

Each stock option grant to an employee or executive officer under the New Plan will allow the recipient to acquire shares of our common stock over a period of time, generally seven years, at a fixed price per share, which will be the fair market value of a share of our common stock on the date of the stock option grant. If the New Plan is approved by stockholders, the Compensation Committee expects that stock options granted to an employee or executive officer under the New Plan will, consistent with the Expiring Plan, generally vest ratably over four years so long as the recipient continues to be employed by us; initial grants, however, will vest 25% on the first anniversary of the grant, and ratably over the remaining three years so long as the recipient continues to be employed by us.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

David Mitchell has served as our Chief Executive Officer and as a member of our Board of Directors since October 2, 2004. During fiscal year 2006, the Compensation Committee approved two grants of stock options to Mr. Mitchell under the Expiring Plan: an option to purchase 150,000 shares of our common stock at an exercise price equal to $5.89 per share, the closing price of our common stock on July 11, 2005 (the day on which such grant was made); and an option to purchase 75,000 shares of our common stock at an exercise price equal to $7.94 per share, the closing price of our common stock on December 2, 2005 (the day on which such grant was made). Effective as of October 2, 2005, the Compensation Committee fixed Mr. Mitchell's annual salary at $450,000, plus an on-target cash incentive compensation under which he would be eligible to receive up to 75% of his salary. The Compensation Committee approved the payment of a bonus of $48,811 to Mr. Mitchell with respect to the fourth quarter of our fiscal year 2006. In determining Mr. Mitchell's compensation, the Compensation Committee considered, among other factors, our operating performance in fiscal years 2005 and 2006, Mr. Mitchell's salary and stock option position, and the salaries and stock option positions for CEOs of peer companies.

On July 6, 2006, the Compensation Committee increased Mr. Mitchell's on-target cash incentive compensation potential to 100% of his base salary, and established financial and individual performance objectives for Mr. Mitchell's potential bonus for fiscal year 2007 under the EIP.

DEDUCTIBILITY OF EXECUTIVE COMPENSATION

The Compensation Committee has considered the impact of Section 162(m) of the Internal Revenue Code under the Omnibus Budget Reconciliation Act of 1993, which disallows a deduction for any publicly held corporation for individual compensation exceeding $1.0 million in any taxable year for the Chief Executive Officer and the four other highly compensated executive officers, respectively, unless such compensation meets the requirements for a "performance-based" exception to Section 162(m). The Compensation Committee believes that, because the cash compensation paid to our executive officers is expected to be below $1.0 million and the stock options granted to them are expected to meet the requirements for performance-based exceptions, Section 162(m) will not affect the tax deductions available to us with respect to the compensation of our executive officers. The Compensation Committee tries, to the extent reasonable, to qualify its executive officers' compensation for deductibility under applicable tax laws. However, we may pay non-deductible compensation to our executive officers from time to time.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

GENE RIECHERS *(Chairman)*
PETER GYENES
WILLIAM A. HALTER
BILL RUSSELL

**REPORT OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS**

The Audit Committee is comprised of Vincent Mullarkey (Chairman), Jerry Jasinowski, Gene Riechers and Peter Gyenes. Upon advice from the Corporate Governance Committee, a majority of the full Board of Directors selects members of the Audit Committee annually. Mr. Jasinoski and Mr. Riechers served as members of the Audit Committee during all of our fiscal year ended March 31, 2006; Mr. Mullarkey joined the Audit Committee in May 2005 and has served as Chairman since that time; and Mr. Gyenes joined the Audit Committee in May 2006.

STATEMENT OF POLICY

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities regarding finance, accounting and related legal compliance matters. In furtherance of that purpose, the Audit Committee:

- appoints our Independent Auditors and monitors the independence, qualifications and performance of the Independent Auditors;

- reviews the quality and integrity of our financial statements and other financial information provided to stockholders, the public or the Securities Exchange Commission;

- oversees management's conduct of our financial reporting process and systems of internal accounting, financial reporting and disclosure controls;

- assists Board of Director oversight of our compliance with related legal and regulatory requirements; and

- provides an open channel of communication among the Independent Auditors, management, our employees, counsel, our Internal Auditors and the Board of Directors.

RESPONSIBILITY — ACCOUNTING, AUDITING, AND FINANCIAL REPORTING PRACTICES OF THE COMPANY

During the fiscal year ended March 31, 2006, the Audit Committee met 14 times, during which the Audit Committee discussed with our Chief Financial Officer, PricewaterhouseCoopers LLP, our Independent Auditors, and financial and non-financial management, the interim financial information contained in each quarterly earnings announcement and quarterly report and our annual audit, in addition to receiving periodic updates from management, the Independent Auditors and our Internal Auditor regarding compliance with the Securities Exchange Act of 1934.

RESPONSIBILITY — AUDIT PROCESS

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the Independent Auditors a formal written statement describing all relationships between us and the Independent Auditors that might bear on the Independent Auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees" and discussed with the Independent Auditors any relationships that may impact their objectivity and independence. The Audit Committee has satisfied itself that such relationships and the provision of non-audit services to the Company is compatible with the Independent Auditors' independence. The Audit Committee reviewed with each of the Independent Auditors and the Internal Auditor its audit plans, audit scope, and identification of audit risks.

INDEPENDENT AUDITORS/INTERNAL AUDIT

The Audit Committee discussed and reviewed with the Independent Auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended by SAS 90, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of the Independent Auditors' examination of the financial statements. The Audit Committee also discussed the results of the internal audit examinations with the Internal Auditor.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee reviewed and discussed our audited financial statements as of and for the fiscal year ended March 31, 2006, with management and the Independent Auditors. Management has the responsibility for the preparation of our financial statements and the Independent Auditors have the responsibility for the examination of those statements.

REVIEW OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Audit Committee reviewed and discussed management's assessment of our internal control over financial reporting and the Independent Auditors' evaluation of management's assessment of our internal control over financial reporting with management and the Independent Auditors. In addition, the Audit Committee discussed with management and the Independent Auditors any significant deficiencies identified with respect to our internal control over financial reporting, including the identified material weakness related to accounting for income taxes, assessed the steps taken by management to minimize these deficiencies and elicited recommendations for the improvement of our internal control over financial reporting.

RECOMMENDATION

Based on the above-mentioned review and discussions with management and the Independent Auditors, the Audit Committee recommended to the Board that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006, for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

VINCENT J. MULLARKEY, *Chairman*
PETER GYENES (1)
JERRY J. JASINOWSKI
GENE RIECHERS

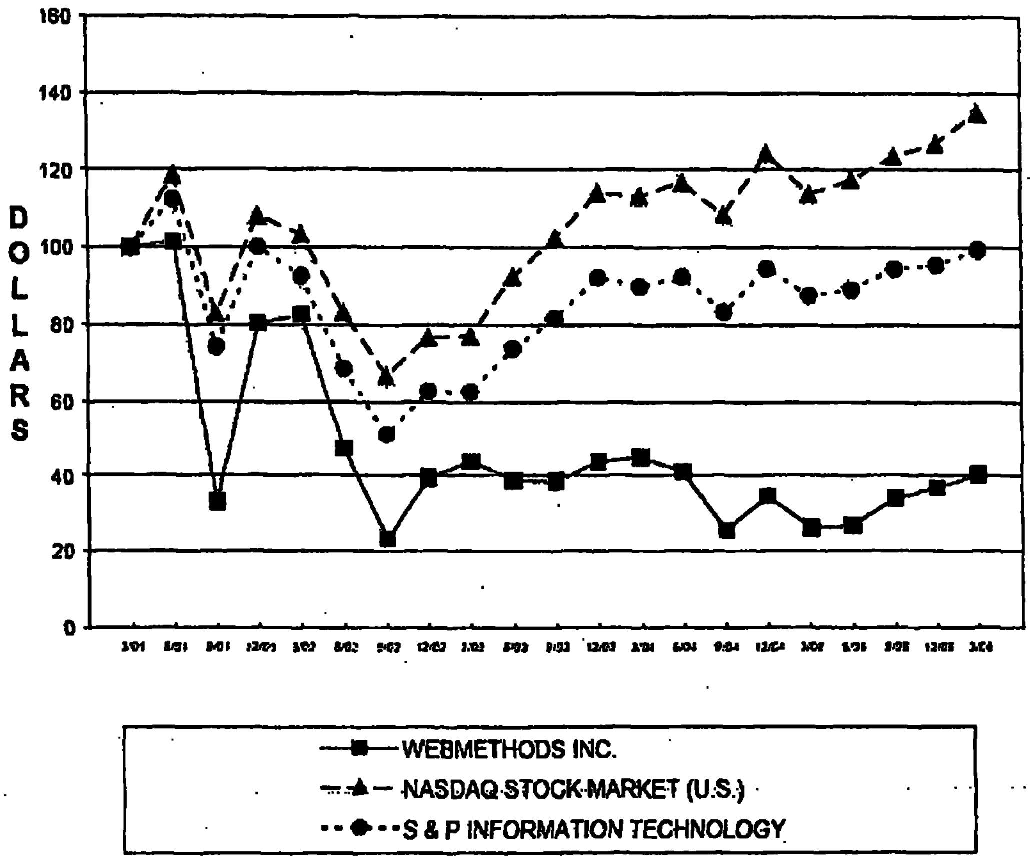
(1) Mr. Gyenes joined the Audit Committee in May 2006 after the conclusion of fiscal year 2006.

STOCK PRICE PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return data for webMethods, Inc. common stock since March 31, 2001 to the cumulative return over such period of the Nasdaq Composite Index and Standard & Poor's Information Technology and Service Index. The graph assumes that $100 was invested on March 31, 2001, in each of webMethods' common stock, the Nasdaq Composite Index and Standard & Poor's Information Technology and Service Index. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

AMONG WEBMETHODS INC., THE NASDAQ STOCK MARKET (U.S.) INDEX
AND THE S & P INFORMATION TECHNOLOGY INDEX



* $100 invested on 3/31/01 in stock or index-including reinvestment of dividends.
Fiscal year ending March 31.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Jack L. Lewis, a member of our Board of Directors, is a partner in the law firm of Morrison & Foerster LLP, which served as our external legal counsel during fiscal year 2006.

OTHER INFORMATION

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. These persons are required by SEC rules to furnish us with copies of all Section 16(a) forms that they file. Based solely on our review of the copies of such forms that we received and written representations from certain reporting persons, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and 10% stockholders were complied with during fiscal year 2006.

STOCKHOLDER PROPOSALS AND NOMINATIONS FOR PRESENTATION AT THE 2007 ANNUAL MEETING OF STOCKHOLDERS

Stockholders intending to submit proposals for consideration at our 2007 annual meeting of stockholders must submit such proposals to us no later than March 13, 2007, in order for such proposals to be considered for inclusion in the proxy statement and form of proxy that our Board of Directors will distribute in connection with that meeting. Stockholder proposals should be sent to webMethods, Inc., Attention: Secretary, 3877 Fairfax Ridge Road, South Tower, Fairfax, Virginia 22030.

Alternatively, stockholders intending to present a proposal at our 2007 annual meeting of stockholders without having it included in our proxy statement must provide written notice of such proposal to webMethods, Inc., Attention: Secretary, 3877 Fairfax Ridge Road, South Tower, Fairfax, Virginia 22030 no earlier than April 30, 2007 and no later than May 30, 2007.

The bylaws of webMethods, Inc. specify certain requirements concerning any stockholder proposal to be made at an annual meeting of stockholders. Pursuant to our bylaws, any stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the stockholder records of webMethods, Inc., and of such beneficial owner, (ii) the class and number of shares of webMethods, Inc. securities that are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of our voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of our voting shares to elect such nominee or nominees. The chairman of the annual meeting will have the power to declare that any proposal not meeting these and any other applicable requirements that the bylaws impose shall be disregarded. Stockholders may obtain a copy of our current bylaws by written request to our Secretary.

In addition, the form of proxy that the Board of Directors will solicit in connection with our 2007 annual meeting of stockholders will confer discretionary authority to vote on any proposal, unless our Secretary receives notice of that proposal no earlier than April 30, 2007 and no later than May 30, 2007, and the notice complies with the requirements described in the preceding paragraph.

HOUSEHOLDING OF PROXY MATERIALS

We have furnished with this proxy statement the annual report on Form 10-K of webMethods, Inc. for the fiscal year ended March 31, 2006. Some nominees, such as brokers, financial institutions and other record holders, may be participating in the practice of "householding" proxy statements and annual reports. That means that only one copy of this proxy statement or our annual report may be sent to multiple stockholders in your household. If you want to receive separate copies of our annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your broker, financial institution and other record holder if your shares are held for you by a nominee, or you may contact us by writing to webMethods, Inc., Attention: General Counsel, 3877 Fairfax Ridge Road, South Tower, Fairfax, Virginia 22030 or by telephoning our Investor Relations Department at (703) 460-2500.

Annex A

WEBMETHODS, INC. 2006
OMNIBUS STOCK INCENTIVE PLAN

1. PURPOSE

The webMethods, Inc. 2006 Omnibus Stock Incentive Plan is intended to promote the best interests of webMethods, Inc. and its stockholders by (i) assisting the Corporation and its Affiliates in the recruitment and retention of persons with ability and initiative, (ii) providing an incentive to such persons to contribute to the growth and success of the Corporation's businesses by affording such persons equity participation in the Corporation and (iii) associating the interests of such persons with those of the Corporation and its affiliates and stockholders.

2. DEFINITIONS

As used in this Plan the following definitions shall apply:

A. "Affiliate" means (i) any Subsidiary, (ii) any Parent, (iii) any corporation, or trade or business (including, without limitation, a partnership, limited liability company or other entity) which is directly or indirectly controlled fifty percent (50%) or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) by the Corporation or one of its Affiliates, and (iv) any other entity in which the Corporation or any of its Affiliates has a material equity interest and which is designated as an "Affiliate" by resolution of the Committee.

B. "Award" means any Option or Stock Award granted hereunder.

C. "Board" means the Board of Directors of the Corporation.

D. "Code" means the Internal Revenue Code of 1986, and any amendments thereto.

E. "Committee" means the Board or any Committee of the Board to which the Board has delegated any responsibility for the implementation, interpretation or administration of this Plan.

F. "Common Stock" means the common stock, $0.01 par value, of the Corporation.

G. "Consultant" means (i) any person performing consulting or advisory services for the Corporation or any Affiliate, or (ii) a director of an Affiliate.

H. "Corporation" means webMethods, Inc., a Delaware corporation.

I. "Corporation Law" means the Delaware General Corporation Law.

J. "Deferral Period" means the period of time during which Deferred Shares are subject to deferral limitations under Section 7.D of this Plan.

K. "Deferred Shares" means an award pursuant to Section 7.D of this Plan of the right to receive shares of Common Stock at the end of a specified Deferral Period.

L. "Director" means a member of the Board.

M. "Eligible Person" means an employee of the Corporation or an Affiliate (including a corporation that becomes an Affiliate after the adoption of this Plan), a Director or a Consultant to the Corporation or an Affiliate (including a corporation that becomes an Affiliate after the adoption of this Plan).

N. "Exchange Act" means the Securities Exchange Act of 1934, as amended.

O. "Fair Market Value" means, on any given date, the current fair market value of the shares of Common Stock as determined as follows:

(i) If the Common Stock is traded on The Nasdaq National Market or The Nasdaq SmallCap Market or is listed on a national securities exchange, the closing price for the day of determination as quoted on such market or exchange which is the primary market or exchange for trading of the Common Stock or if no trading

occurs on such date, the last day on which trading occurred, or such other appropriate date as determined by the Committee in its discretion, as reported in The Wall Street Journal or such other source as the Committee deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high and the low asked prices for the Common Stock for the day of determination; or

(iii) In the absence of an established market for the Common Stock, Fair Market Value shall be determined by the Committee in good faith.

P. "Incentive Stock Option" means an Option (or portion thereof) intended to qualify for special tax treatment under Section 422 of the Code.

Q. "Nonqualified Stock Option" means an Option (or portion thereof) which is not intended or does not for any reason qualify as an Incentive Stock Option.

R. "Option" means any option to purchase shares of Common Stock granted under this Plan.

S. "Parent" means any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation if each of the corporations (other than the Corporation) owns stock possessing at least fifty percent (50%) of the total combined voting power of all classes of stock in one of the other corporations in such chain.

T. "Participant" means an Eligible Person who (i) is selected by the Committee or an authorized officer of the Corporation to receive an Award and (ii) is party to an agreement setting forth the terms of the Award, as appropriate.

U. "Performance Agreement" means an agreement described in Section 8 of this Plan.

V. "Performance Objectives" means the performance objectives established pursuant to this Plan for Participants who have received grants of Performance Shares or, when so determined by the Committee, Stock Awards. Performance Objectives may be described in terms of Corporation-wide objectives or objectives that are related to the performance of the individual Participant or the Affiliate, subsidiary, division, department or function within the Corporation or Affiliate in which the Participant is employed or has responsibility. Any Performance Objectives applicable to Awards to the extent that such an Award is intended to qualify as "performance-based compensation" under Section 162(m) of the Code shall be limited to specified levels of or increases in the Corporation's or a business unit's return on equity, earnings per share, total earnings, earnings growth, return on capital, return on assets, economic value added, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, sales growth, gross margin return on investment, increase in the Fair Market Value of the shares, share price (including but not limited to growth measures and total stockholder return), net operating profit, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investments (which equals net cash flow divided by total capital), internal rate of return, increase in net present value or expense targets. The Awards intended to qualify as "Performance Based Compensation" under Section 162(m) of the Code shall be preestablished in accordance with applicable regulations under Section 162(m) of the Code and the determination of attainment of such goals shall be made by the Committee. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Corporation (including an event described in Section 9), or the manner in which it conducts is business, or other events or circumstances render the Performance Objectives unsuitable, the Committee may modify such Performance Objectives or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable; provided, however, that no such modification shall be made to an Award intended to qualify as performance-based compensation under Section 162(m) of the Code unless the Committee determines that such modification will not result in loss of such qualification or the Committee determines that loss of such qualification is in the best interests of the Corporation.

W. "Performance Period" means a period of time established under Section 8 of this Plan within which the Performance Objectives relating to a Performance Share or Stock Award are to be achieved.

X. "Performance Share" means a bookkeeping entry that records the equivalent of one share of Common Stock awarded pursuant to Section 8 of this Plan.

Y. "Plan" means this webMethods, Inc. 2006 Omnibus Stock Incentive Plan.

Z. "Repricing" means, other than in connection with an event described in Section 9 of this Plan, (i) lowering the exercise price of an Option or Stock Appreciation Right after it has been granted or (ii) canceling an Option or Stock Appreciation Right at a time when the exercise price exceeds the then Fair Market Value of the Common Stock in exchange for another Option or Stock Award.

AA. "Restricted Stock Award" means an award of Common Stock under Section 7.B.

BB. "Securities Act" means the Securities Act of 1933, as amended.

CC. "Stock Award" means a Stock Bonus Award, Restricted Stock Award, Stock Appreciation Right, Deferred Shares or Performance Shares.

DD. "Stock Bonus Award" means an award of Common Stock under Section 7.A.

EE. "Stock Appreciation Right" means an award of a right of the Participant under Section 7.C to receive a payment in cash or shares of Common Stock (or a combination thereof) based on the increase in Fair Market Value of the shares of Common Stock covered by the award between the date of grant of such award and the Fair Market Value of the Common Stock on the date of exercise of such Stock Appreciation Right.

FF. "Stock Award Agreement" means an agreement (written or electronic) between the Corporation and a Participant setting forth the specific terms and conditions of a Stock Award granted to the Participant under Section 7. Each Stock Award Agreement shall be subject to the terms and conditions of this Plan and shall include such terms and conditions as the Committee shall authorize.

GG. "Stock Option Agreement" means an agreement (written or electronic) between the Corporation and a Participant setting forth the specific terms and conditions of an Option granted to the Participant. Each Stock Option Agreement shall be subject to the terms and conditions of this Plan and shall include such terms and conditions as the Committee shall authorize.

HH. "Subsidiary" means any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing at least fifty percent (50%) of the total combined voting power of all classes of stock in one of the other corporations in such chain.

II. "Ten Percent Owner" means any Eligible Person owning at the time an Option is granted more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or of a Parent or Subsidiary. An individual shall, in accordance with Section 424(d) of the Code, be considered to own any voting stock owned (directly or indirectly) by or for such Eligible Person's brothers, sisters, spouse, ancestors and lineal descendants and any voting stock owned (directly or indirectly) by or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by or for its stockholders, partners or beneficiaries.

3. Administration

A. <u>Delegation to Board Committee.</u> The Board shall be the sole Committee of this Plan unless the Board delegates all or any portion of its authority to administer this Plan to a Committee. To the extent not prohibited by the charter or bylaws of the Corporation, the Board may delegate all or a portion of its authority to administer this Plan to a Committee of the Board appointed by the Board and constituted in compliance with the applicable Corporation Law. The Committee shall consist solely of two (2) or more Directors who are (i) Non-Employee Directors (within the meaning of Rule 16b-3 under the Exchange Act) for purposes of exercising administrative authority with respect to Awards granted to Eligible Persons who are subject to Section 16 of the Exchange Act; (ii) to the extent required by the rules of the market on which the Corporation's shares are traded or the exchange on which the Corporation' shares are listed, "independent" within the meaning of such rules; and (iii) at such times as an Award under this Plan by the Corporation is subject to Section 162(m) of the Code (to the extent relief from the limitation of Section 162(m) of the Code is sought with respect to Awards and administration of the Awards by a committee of "outside directors" is required to receive such relief) "outside directors" within the meaning of Section 162(m) of the Code.

B. <u>Delegation to Officers</u>. The Committee may delegate to one or more officers of the Corporation the authority to grant and administer Stock Awards to Eligible Persons who are not Directors or executive officers of the Corporation; provided that the Committee shall have fixed the total number of shares of Common Stock that may be subject to such Stock Awards. No officer holding such a delegation is authorized to grant Stock Awards to himself or herself. In addition to the Committee, the officer or officers to whom the Committee has delegated the authority to grant and administer Stock Awards shall have all powers delegated to the Committee with respect to such Stock Awards. Such delegation shall be subject to the limitations of Section 157(c) (or any successor provision) of the Corporation Law.

C. <u>Powers of the Committee</u>. Subject to the provisions of this Plan, and in the case of a Committee appointed by the Board, the specific duties delegated to such Committee, the Committee (and the officers to whom the Committee has delegated such authority) shall have the authority:

(i) To construe and interpret all provisions of this Plan and all Stock Option Agreements, Stock Award Agreements and Performance Agreements under this Plan.

(ii) To determine the Fair Market Value of Common Stock.

(iii) To select the Eligible Persons to whom Awards, are granted from time to time hereunder.

(iv) To determine the number of shares of Common Stock covered by an Award; determine whether an Option shall be an Incentive Stock Option or Nonqualified Stock Option; and determine such other terms and conditions, not inconsistent with the terms of this Plan, of each such Award. Such terms and conditions include, but are not limited to, the exercise price of an Option, purchase price of Common Stock subject to a Stock Award, the time or times when Options or Stock Awards may be exercised or Common Stock issued thereunder, the right of the Corporation to repurchase Common Stock issued pursuant to the exercise of an Option or a Stock Award and other restrictions or limitations (in addition to those contained in this Plan) on the forfeitability or transferability of Options, Stock Awards or Common Stock issued upon exercise of an Option or pursuant to an Award. Such terms may include conditions which shall be determined by the Committee and need not be uniform with respect to Participants.

(v) To accelerate the time at which any Option or Stock Award may be exercised, or the time at which a Stock Award or Common Stock issued under this Plan may become transferable or nonforfeitable.

(vi) To determine whether and under what circumstances an Option may be settled in cash, shares of Common Stock or other property under Section 6.H instead of Common Stock.

(vii) To waive, amend, cancel, extend, renew, accept the surrender of, modify or accelerate the vesting of or lapse of restrictions on all or any portion of an outstanding Award. Except as otherwise provided by this Plan, the Stock Option Agreement, Stock Award Agreement or Performance Agreement or as required to comply with applicable law, regulation or rule, no amendment, cancellation or modification shall, without a Participant's consent, adversely affect any rights of the Participant; provided, however, that (x) an amendment or modification that may cause an Incentive Stock Option to become a Nonqualified Stock Option shall not be treated as adversely affecting the rights of the Participant and (y) any other amendment or modification of any Stock Option Agreement, Stock Award Agreement or Performance Agreement that does not, in the opinion of the Committee, adversely affect any rights of any Participant, shall not require such Participant's consent. Notwithstanding the foregoing, the restrictions on the Repricing of Options and Stock Appreciation Rights, as set forth in this Plan, may not be waived.

(viii) To prescribe the form of Stock Option Agreements, and Stock Award Agreements and Performance Agreements; to adopt policies and procedures for the exercise of Options or Stock Awards, including the satisfaction of withholding obligations; to adopt, amend, and rescind policies and procedures pertaining to the administration of this Plan; and to make all other determinations necessary or advisable for the administration of this Plan.

The express grant in this Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee; provided that a Committee of the Board may not exercise any right or power reserved to the Board. Any decision made, or action taken, by the Committee or in connection with the administration of this Plan shall be final, conclusive and binding on all persons having an interest in this Plan.

4. ELIGIBILITY

A. Eligibility for Awards. Awards, other than Incentive Stock Options, may be granted to any Eligible Person selected by the Committee. Incentive Stock Options may be granted only to employees of the Corporation or a Parent or Subsidiary.

B. Eligibility of Consultants. A Consultant shall be an Eligible Person only if the offer or sale of the Corporation's securities would be eligible for registration on Form S-8 Registration Statement because of the identity and nature of the service provided by such person, unless the Corporation determines that an offer or sale of the Corporation's securities to such person will satisfy another exemption from the registration under the Securities Act and complies with the securities laws of all other jurisdictions applicable to such offer or sale.

C. Substitution Awards. The Committee may make Awards and may grant Options under this Plan by assumption, in substitution or replacement of performance shares, phantom shares, stock awards, stock options, stock appreciation rights or similar awards granted by another entity (including an Affiliate) in connection with a merger, consolidation, acquisition of property or stock or similar transaction. Notwithstanding any provision of this Plan (other than the maximum number of shares of Common Stock that may be issued under this Plan), the terms of such assumed, substituted, or replaced Awards shall be as the Committee, in its discretion, determines is appropriate.

5. COMMON STOCK SUBJECT TO PLAN

A. Share Reserve and Limitations on Grants. Subject to adjustment as provided in Section 9, the maximum aggregate number of shares of Common Stock that may be (i) issued under this Plan pursuant to the exercise of Options, (ii) issued pursuant to Stock Awards, (iii) covered by Stock Appreciation Rights (without regard to whether payment on exercise of the Stock Appreciation Right is made in cash or shares of Common Stock) and (iv) covered by Performance Shares is 8,500,000, plus the number of shares of Common Stock, if any, which (x) are subject to outstanding stock options under the Corporation's Amended and Restated Stock Option Plan as of the date of the approval of this Plan by stockholders of the Corporation and (y) are not issued and will not be issued under such Amended and Restated Stock Option Plan because such stock options expire, become unexercisable or terminate unexercised for any reason whatsoever, in whole or in part, after the date of approval of this Plan by the stockholders of the Corporation; provided that, such increase shall not exceed 18,000,000 additional shares of Common Stock. The number of such additional shares of Common Stock and the maximum number of additional shares of Common Stock shall be subject to adjustment as provided in Section 9. Such additional shares of Common Stock shall become available for future grant under the Plan as of the dates on which such stock options under the Amended and Restated Stock Option Plan expire, become unexercisable or terminate unexercised. Subject to adjustment as provided in Section 9, and notwithstanding any provision hereto to the contrary, the maximum aggregate number of shares of Common Stock that may be issued pursuant to Stock Bonus Awards, Deferred Shares, Performance Shares and Restricted Stock Awards is 4,000,000. No Participant may be granted Awards representing more than 850,000 shares in any one calendar year. This limitation shall be applied as of any date by taking into account the number of shares available to be made the subject of new Awards as of such date, plus the number of shares previously issued under this Plan and the number of share subject to outstanding Awards as of such date. For purposes of determining the number of shares of Common Stock available under this Plan, shares of Common Stock withheld by the Corporation to satisfy applicable tax withholding obligations pursuant to Section 10 of this Plan shall be deemed issued under this Plan.

B. Reversion of Shares. If an Option or Stock Award is terminated, expires or becomes unexercisable, in whole or in part, for any reason, the unissued or unpurchased shares of Common Stock (or shares subject to an unexercised Stock Appreciation Right) which were subject thereto shall become available for future grant under this Plan. Shares of Common Stock that have been actually issued under this Plan shall not be returned to the share reserve for future grants under this Plan; except that shares of Common Stock issued pursuant to a Stock Award which are forfeited to the Corporation or repurchased by the Corporation at the original purchase price of such shares, shall be returned to the share reserve for future grant under this Plan. For avoidance of doubt, this Section 5.B shall not apply to any per Participant limit set forth in Section 5.A.

C. Source of Shares. Common Stock issued under this Plan may be shares of authorized and unissued Common Stock or shares of previously issued Common Stock that have been reacquired by the Corporation.

6. OPTIONS

A. Award. In accordance with the provisions of Section 4, the Committee will designate each Eligible Person to whom an Option is to be granted and will specify the number of shares of Common Stock covered by such Option. The Stock Option Agreement shall specify whether the Option is an Incentive Stock Option or Nonqualified Stock Option, the vesting schedule applicable to such Option and any other terms of such Option. No Option that is intended to be an Incentive Stock Option shall be invalid for failure to qualify as an Incentive Stock Option.

B. Option Price. The exercise price per share for Common Stock subject to an Option shall be determined by the Committee, but shall comply with the following:

(i) The exercise price per share for Common Stock subject to an Option shall not be less than one hundred percent (100%) of the Fair Market Value on the date of grant.

(ii) The exercise price per share for Common Stock subject to an Incentive Stock Option granted to a Participant who is deemed to be a Ten Percent Owner on the date such option is granted, shall not be less than one hundred ten percent (110%) of the Fair Market Value on the date of grant.

C. Maximum Option Period. The maximum period during which an Option may be exercised shall be seven (7) years from the date such Option was granted. In the case of an Incentive Stock Option that is granted to a Participant who is or is deemed to be a Ten Percent Owner on the date of grant, such Option shall not be exercisable after the expiration of five (5) years from the date of grant.

D. Maximum Value of Options which are Incentive Stock Options. To the extent that the aggregate Fair Market Value of the Common Stock with respect to which Incentive Stock Options granted to any person are exercisable for the first time during any calendar year (under all stock option plans of the Corporation or any Parent or Subsidiary) exceeds $100,000 (or such other amount provided in Section 422 of the Code), the Options are not Incentive Stock Options. For purposes of this section, the Fair Market Value of the Common Stock will be determined as of the time the Incentive Stock Option with respect to the Common Stock is granted. This section will be applied by taking Incentive Stock Options into account in the order in which they are granted.

E. Nontransferability. Options granted under this Plan which are intended to be Incentive Stock Options shall be nontransferable except by will or by the laws of descent and distribution and during the lifetime of the Participant shall be exercisable by only the Participant to whom the Incentive Stock Option is granted. Except to the extent transferability of a Nonqualified Stock Option is provided for in the Stock Option Agreement or is approved by the Committee, during the lifetime of the Participant to whom the Nonqualified Stock Option is granted, such Option may be exercised only by the Participant. If the Stock Option Agreement so provides or the Committee so approves, a Nonqualified Stock Option may be transferred by a Participant through a gift or domestic relations order to the Participant's family members to the extent in compliance with applicable securities laws and regulations and provided that such transfer is not a transfer for value (within the meaning of applicable securities laws and regulations). The holder of a Nonqualified Stock Option transferred pursuant to this section shall be bound by the same terms and conditions that governed the Option during the period that it was held by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

F. Vesting. Options will vest as provided in the Stock Option Agreement.

G. Exercise. Subject to the provisions of this Plan and the applicable Stock Option Agreement, an Option may be exercised to the extent vested in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Stock Option Agreement with respect to the remaining shares subject to the Option. An Option may not be exercised with respect to fractional shares of Common Stock.

H. Payment. Unless otherwise provided by the Stock Option Agreement, payment of the exercise price for an Option shall be made in cash or a cash equivalent acceptable to the Committee or if the Common Stock is traded on an established securities market, by payment of the exercise price by a broker-dealer or by the Option holder with cash advanced by the broker-dealer if the exercise notice is accompanied by the Option holder's written irrevocable instructions to deliver the Common Stock acquired upon exercise of the Option to the broker-dealer or by

delivery of the Common Stock to the broker-dealer with an irrevocable commitment by the broker-dealer to forward the exercise price to the Corporation. With the consent of the Committee, payment of all or a part of the exercise price of an Option may also be made (i) by surrender to the Corporation (or delivery to the Corporation of a properly executed form of attestation of ownership) of shares of Common Stock that have been held for such period prior to the date of exercise as is necessary to avoid adverse accounting treatment to the Corporation, or (ii) any other method acceptable to the Committee. If Common Stock is used to pay all or part of the exercise price, the sum of the cash or cash equivalent and the Fair Market Value (determined as of the date of exercise) of the shares surrendered must not be less than the Option price of the shares for which the Option is being exercised.

I. Stockholder Rights. No Participant shall have any rights as a stockholder with respect to shares subject to an Option until the date of exercise of such Option and the certificate for shares of Common Stock to be received on exercise of such Option has been issued by the Corporation.

J. Disposition and Stock Certificate Legends for Incentive Stock Option Shares. A Participant shall notify the Corporation of any sale or other disposition of Common Stock acquired pursuant to an Incentive Stock Option if such sale or disposition occurs (i) within two years of the grant of an Option or (ii) within one year of the issuance of the Common Stock to the Participant. Such notice shall be in writing and directed to the Chief Financial Officer of the Corporation. The Corporation may require that certificates evidencing shares of Common Stock purchased upon the exercise of Incentive Stock Option issued under this Plan be endorsed with a legend in substantially the following form:

> The shares evidenced by this certificate may not be sold or transferred prior to ________, 20__, in the absence of a written statement from the Corporation to the effect that the Corporation is aware of the facts of such sale or transfer.

The blank contained in this legend shall be filled in with the date that is the later of (i) one year and one day after the date of the exercise of such Incentive Stock Option or (ii) two years and one day after the grant of such Incentive Stock Option.

K. No Repricing. In no event shall the Committee permit a Repricing of any Option without the approval of the stockholders of the Corporation.

7. STOCK AWARDS

A. Stock Bonus Awards. Each Stock Award Agreement for a Stock Bonus Award shall be in such form and shall contain such terms and conditions (including provisions relating to consideration, vesting, reacquisition of shares following termination, and transferability of shares) as the Committee shall deem appropriate. The terms and conditions of Stock Award Agreements for Stock Bonus Awards may change from time to time, and the terms and conditions of separate Stock Bonus Awards need not be identical.

B. Restricted Stock Awards. Each Stock Award Agreement for a Restricted Stock Award shall be in such form and shall contain such terms and conditions (including provisions relating to purchase price, consideration, vesting, reacquisition of shares following termination, and transferability of shares) as the Committee shall deem appropriate. The terms and conditions of the Stock Award Agreements for Restricted Stock Awards may change from time to time, and the terms and conditions of separate Restricted Stock Awards need not be identical. Vesting of any grant of Restricted Stock Awards may be further conditioned upon the attainment of Performance Objectives established by the Committee in accordance with the applicable provisions of Section 8 of this Plan regarding Performance Shares.

C. Stock Appreciation Rights. Each Stock Award Agreement for Stock Appreciation Rights shall be in such form and shall contain such terms and conditions (including provisions relating to vesting, reacquisition of shares following termination, and transferability of shares) as the Committee shall deem appropriate. The terms and conditions of Stock Appreciation Rights may change from time to time, and the terms and conditions of separate Stock Appreciation Rights need not be identical. No Stock Appreciation Right shall be exercisable after the expiration of seven (7) years from the date such Stock Appreciation Right is granted. The base price per share for each share of Common Stock covered by an Award of Stock Appreciation Rights shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date of grant. In no event shall the Committee permit a Repricing of any Stock Appreciation Right without the approval of the stockholders of the Corporation.

D. Deferred Shares. The Committee may authorize grants of Deferred Shares to Participants upon such terms and conditions as the Committee may determine in accordance with the following provisions:

(i) Each grant shall constitute the agreement by the Corporation to issue or transfer shares of Common Stock to the Participant in the future in consideration of the performance of services, subject to the fulfillment during the Deferral Period of such conditions as the Committee may specify.

(ii) Each grant may be made without additional consideration from the Participant or in consideration of a payment by the Participant that is less than the Fair Market Value on the date of grant.

(iii) Each grant shall provide that the Deferred Shares covered thereby shall be subject to a Deferral Period, which shall be fixed by the Committee on the date of grant, and any grant or sale may provide for the earlier termination of such period in the event of a change in control of the Corporation or other similar transaction or event.

(iv) During the Deferral Period, the Participant shall not have any right to transfer any rights under the subject Award, shall not have any rights of ownership in the Deferred Shares and shall not have any right to vote such shares, but the Committee may on or after the date of grant, authorize the payment of dividend or other distribution equivalents on such shares in cash or additional shares on a current, deferred or contingent basis.

(v) Any grant of the vesting thereof may be further conditioned upon the attainment of Performance Objectives established by the Committee in accordance with the applicable provisions of Section 8 of this Plan regarding Performance Shares.

(vi) Each grant shall be evidenced by an agreement delivered to and accepted by the Participant and containing such terms and provisions as the Committee may determine consistent with this Plan.

8. Performance Shares

A. The Committee may authorize grants of Performance Shares, which shall become payable to the Participant upon the achievement of specified Performance Objectives, upon such terms and conditions as the Committee may determine in accordance with the following provisions:

(i) Each grant shall specify the number of Performance Shares to which it pertains, which may be subject to adjustment to reflect changes in compensation or other factors.

(ii) The Performance Period with respect to each Performance Share shall commence on the date established by the Committee and may be subject to earlier termination in the event of a change in control of the Corporation or similar transaction or event.

(iii) Each grant shall specify the Performance Objectives that are to be achieved by the Participant.

(iv) Each grant may specify in respect of the specified Performance Objectives a minimum acceptable level of achievement below which no payment will be made and may set forth a formula for determining the amount of any payment to be made if performance is at or above such minimum acceptable level but falls short of the maximum achievement of the specified Performance Objectives.

(v) Each grant shall specify the time and manner of payment of Performance Shares that shall have been earned, and any grant may specify that any such amount may be paid by the Corporation in cash, shares of Common Stock or any combination thereof and may either grant to the Participant or reserve to the Committee the right to elect among those alternatives.

(vi) Any grant of Performance Shares may specify that the amount payable with respect thereto may not exceed a maximum specified by the Committee on the date of grant.

(vii) Any grant of Performance Shares may provide for the payment to the Participant of dividend or other distribution equivalents thereon in cash or additional shares of Common Stock on a current, deferred or contingent basis.

(viii) If provided in the terms of the grant and subject to the requirements of Section 162(m) of the Code (in the case of Awards intended to qualify for exception therefrom), the Committee may adjust Performance Objectives and the related minimum acceptable level of achievement if, in the sole judgment of the Committee, events or transactions have occurred after the date of grant that are unrelated to the performance of the Participant and result in distortion of the Performance Objectives or the related minimum acceptable level of achievement.

(ix) Each grant shall be evidenced by an agreement that shall be delivered to and accepted by the Participant, which shall state that the Performance Shares are subject to all of the terms and conditions of this Plan and such other terms and provisions as the Committee may determine consistent with this Plan.

9. Changes in Capital Structure

A. No Limitations of Rights. The existence of outstanding Awards shall not affect in any way the right or power of the Corporation or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Corporation's capital structure or its business, or any merger or consolidation of the Corporation, or any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Corporation, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

B. Changes in Capitalization. If the Corporation shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of the Common Stock outstanding, without receiving consideration therefore in money, services or property, then (i) the number, class, and per share price of shares of Common Stock subject to outstanding Options and other Awards hereunder and (ii) the number and class of shares then reserved for issuance under this Plan (including the increase in shares attributable to the Corporation's Amended and Restated Stock Option Plan as provided in Section 5.A) and the maximum number of shares for which Awards may be granted to a Participant during a specified time period shall be appropriately and proportionately adjusted. The conversion of convertible securities of the Corporation shall not be treated as effected "without receiving consideration." The Committee shall make such adjustments, and its determinations shall be final, binding and conclusive.

C. Merger, Consolidation or Asset Sale. If the Corporation is merged or consolidated with another entity or sells or otherwise disposes of substantially all of its assets to another company while Options or Stock Awards remain outstanding under this Plan, unless provisions are made in connection with such transaction for the continuance of this Plan and/or the assumption or substitution of such Options or Stock Awards with new options or stock awards covering the stock of the successor company, or parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, then all outstanding Options and Stock Awards which have not been continued, assumed or for which a substituted award has not been granted shall, whether or not vested or then exercisable, unless otherwise specified in the Stock Option Agreement or Stock Award Agreement, terminate immediately as of the effective date of any such merger, consolidation or sale.

D. Limitation on Adjustment. Except as previously expressly provided, neither the issuance by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Corporation convertible into such shares or other securities, nor the increase or decrease of the number of authorized shares of stock, nor the addition or deletion of classes of stock, shall affect, and no adjustment by reason thereof shall be made with respect to, the number, class or price of shares of Common Stock then subject to outstanding Options or Stock Awards.

10. WITHHOLDING OF TAXES

The Corporation or an Affiliate shall have the right, before any certificate for any Common Stock is delivered, to deduct or withhold from any payment owed to a Participant any amount that is necessary in order to satisfy any withholding requirement that the Corporation or Affiliate in good faith believes is imposed upon it in connection with Federal, state, or local taxes, including transfer taxes, as a result of the issuance of, or lapse of restrictions on, such Common Stock, or otherwise require such Participant to make provision for payment of any such withholding amount. Subject to such conditions as may be established by the Committee, the Committee may permit a Participant

to (i) have Common Stock otherwise issuable under an Option or Stock Award withheld to the extent necessary to comply with minimum statutory withholding rate requirements, (ii) tender back to the Corporation shares of Common Stock received pursuant to an Option or Stock Award to the extent necessary to comply with minimum statutory withholding rate requirements for supplemental income, (iii) deliver to the Corporation previously acquired Common Stock, (iv) have funds withheld from payments of wages, salary or other cash compensation due the Participant, or (v) pay the Corporation or its Affiliate in cash, in order to satisfy part or all of the obligations for any taxes required to be withheld or otherwise deducted and paid by the Corporation or its Affiliate with respect to the Option or Stock Award.

11. COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

A. General Requirements. No Option or Stock Award shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), any listing agreement to which the Corporation is a party, and the rules of all domestic stock exchanges or quotation systems on which the Corporation's shares may be listed. The Corporation shall have the right to rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock when a Stock Award is granted or for which an Option or Stock Award is exercised may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations. No Option or Stock Award shall be exercisable, no Stock Award shall be granted, no Common Stock shall be issued, no certificate for shares shall be delivered, and no payment shall be made under this Plan until the Corporation has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

B. Participant Representations. The Committee may require that a Participant, as a condition to receipt or exercise of a particular award, execute and deliver to the Corporation a written statement, in form satisfactory to the Committee, in which the Participant represents and warrants that the shares are being acquired for such person's own account, for investment only and not with a view to the resale or distribution thereof. The Participant shall, at the request of the Committee, be required to represent and warrant in writing that any subsequent resale or distribution of shares of Common Stock by the Participant shall be made only pursuant to either (i) a registration statement on an appropriate form under the Securities Act of 1933, which registration statement has become effective and is current with regard to the shares being sold, or (ii) a specific exemption from the registration requirements of the Securities Act of 1933, but in claiming such exemption the Participant shall, prior to any offer of sale or sale of such shares, obtain a prior favorable written opinion of counsel, in form and substance satisfactory to counsel for the Corporation, as to the application of such exemption thereto.

12. GENERAL PROVISIONS

A. Effect on Employment and Service. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall (i) confer upon any individual any right to continue in the employ or service of the Corporation or an Affiliate, (ii) in any way affect any right and power of the Corporation or an Affiliate to change an individual's duties or terminate the employment or service of any individual at any time with or without assigning a reason therefor or (iii) except to the extent the Committee grants an Option or Stock Award to such individual, confer on any individual the right to participate in the benefits of this Plan.

B. Use of Proceeds. The proceeds received by the Corporation from the sale of Common Stock pursuant to this Plan shall be used for general corporate purposes.

C. Unfunded Plan. This Plan, insofar as it provides for grants, shall be unfunded, and the Corporation shall not be required to segregate any assets that may at any time be represented by grants under this Plan. Any liability of the Corporation to any person with respect to any grant under this Plan shall be based solely upon any contractual obligations that may be created pursuant to this Plan. No such obligation of the Corporation shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Corporation.

D. Rules of Construction. Headings are given to the Sections of this Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

E. Choice of Law. This Plan and all Stock Option Agreements and Stock Award Agreements entered into under this Plan shall be interpreted under the Corporation Law excluding (to the greatest extent permissible by law) any rule of law that would cause the application of the laws of any jurisdiction other than the Corporation Law.

F. Fractional Shares. The Corporation shall not be required to issue fractional shares pursuant to this Plan. The Committee may provide for elimination of fractional shares or the settlement of such fraction shares in cash.

G. Foreign Employees. In order to facilitate the making of any grant or combination of grants under this Plan, the Committee may provide for such special terms for Awards to Participants who are foreign nationals, or who are employed by the Corporation or any Affiliate outside of the United States, as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of this Plan, as then in effect, unless this Plan could have been amended to eliminate such inconsistency without further approval by the stockholders of the Corporation.

13. Amendment and Termination

The Board may amend or terminate this Plan from time to time; provided, however, stockholder approval shall be required for any amendment that (i) increases the aggregate number of shares of Common Stock that may be issued under this Plan, except as contemplated by Section 5.A or Section 9.B; (ii) changes the class of employees eligible to receive Incentive Stock Options; (iii) modifies the restrictions on Repricings set forth in this Plan; or (iv) is required by the terms of any applicable law, regulation or rule, including the rules of any market on which the Corporation shares are traded or exchange on which the Corporation shares are listed. Except as specifically permitted by this Plan, Stock Option Agreement or Stock Award Agreement or as required to comply with applicable law, regulation or rule, no amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any Option or Stock Award outstanding at the time such amendment is made; provided, however, that an amendment that may cause an Incentive Stock Option to become a Nonqualified Stock Option shall not be treated as adversely affecting the rights of the Participant. Any amendment requiring stockholder approval shall be approved by the stockholders of the Corporation within twelve (12) months of the date such amendment is adopted by the Board.

14. Effective Date of Plan; Duration of Plan

A. This Plan shall be effective upon adoption by the Board, subject to approval within twelve (12) months by the stockholders of the Corporation. In the event that the stockholders of the Corporation shall not approve this Plan within such twelve (12) month period, this Plan shall terminate. Unless and until the Plan has been approved by the stockholders of the Corporation, no Option or Stock Award may be exercised, and no shares of Common Stock may be issued under the Plan. In the event that the stockholders of the Corporation shall not approve the Plan within such twelve (12) month period, the Plan and any previously granted Options or Stock Awards shall terminate.

B. Unless previously terminated, this Plan will terminate ten (10) years after the earlier of (i) the date this Plan is adopted by the Board, or (ii) the date this Plan is approved by the stockholders, except that Awards that are granted under this Plan prior to its termination will continue to be administered under the terms of this Plan until the Awards terminate or are exercised.

IN WITNESS WHEREOF, the Corporation has caused this Plan to be executed by a duly authorized officer as of the date of adoption of this Plan by the Board of Directors.

WEBMETHODS, INC.

By: /s/ DAVID MITCHELL
David Mitchell, *President and CEO*
Date: July 6, 2006

Annex B

CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS OF WEBMETHODS, INC.

I. PURPOSE

The Audit Committee (the "Committee") is appointed by the Board of Directors of webMethods, Inc. (the "Corporation"). The primary function of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities regarding finance, accounting and related legal compliance matters. In furtherance of that purpose, the Committee shall:

- appoint Independent Accountants (as defined below) for the Corporation and monitor the independence, qualifications and performance of the Independent Accountants;

- review the quality and integrity of the Corporation's financial statements and other financial information provided by the Corporation to its stockholders, the public or the SEC;
- oversee management's conduct of the Corporation's financial reporting process and systems of internal accounting, financial and disclosure controls;
- assist Board of Director oversight of the Corporation's compliance with related legal and regulatory requirements; and
- provide an open channel of communication among the Independent Accountants, management and employees of the Corporation and its subsidiaries, counsel, any internal audit group and the Board of Directors.

Section IV of this Charter sets forth the primary duties and responsibilities of the Committee. The Committee may, in its discretion, also review reports from management on other finance, legal or administrative issues as the Committee deems appropriate or necessary.

While acting within the scope of its responsibilities, the Committee shall have all of the authority of the Board of Directors. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall have unrestricted access to member of management, other employees of the Corporation and its subsidiaries and the Independent Accountants as necessary to carry out its responsibilities. The Committee shall also have unrestricted access to all information relevant to the carrying out of its responsibilities. The Committee shall have the power to retain, at the expense of the Corporation, independent legal, accounting or other advisers appropriate or necessary, in the discretion of the Committee, to carry out its responsibilities, and shall have the authority to approve the fees payable to such advisers and any other terms of retention.

II. COMPOSITION

The Committee shall be composed of three or more members as determined by the Board of Directors from time to time. No person who is not an Independent Director (as defined below) shall be eligible to serve on the Committee, and no member of the Committee shall accept any consulting, advisory or other compensatory fee from the Corporation other than in connection with serving on the Committee or as a member of the Board of Directors. All members of the Committee shall have a practical knowledge of finance and accounting and shall be able to read and understand fundamental financial statements, including the Corporation's balance sheet, income statement and statement of cash flows, and at least one member of the Committee shall be an "audit committee financial expert," as defined by the SEC.

No member of the Committee shall simultaneously serve on the audit committee of more than three public companies, including the Corporation, unless the Board of Directors has made a determination that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

The members of the Committee shall be elected by the Board at the annual meeting of the Board and shall serve until their successors shall be duly elected and qualified or their earlier resignation, removal, or termination of service as a director. Unless a Chairman of the Committee is elected by the full Board of Directors, the members of the Committee may (but shall not be required to) designate a Chairman by majority vote of the full Committee membership.

III. MEETINGS

The Committee shall meet at least four times annually, and more frequently as circumstances dictate, and shall fix its own rules of procedure. The Committee may act by written consent in lieu of meeting, except as set forth below. As part of its duty to foster open communication, the Committee shall meet periodically with management, the head of any internal auditing group and the Corporation's independent accountants in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. In addition, the Committee shall meet with the independent accountants and management quarterly to review the Corporation's financial statements consistent with the provisions of this Charter.

IV. DUTIES AND RESPONSIBILITIES

The Committee's principal responsibility is one of oversight. Management of the Corporation is responsible for preparing the Corporation's financial statements, and the Independent Accountants are responsible for auditing and/or reviewing the Corporation's financial statements. In carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Corporation's financial statements or any professional certification as to the work of the Independent Accountants. The Committee's specific responsibilities are as follows:

A. <u>Review Documents and the Corporation's Periodic Reports</u>

1. The Committee shall review this Charter from time to time, but not less frequently than annually, as conditions dictate, and shall update this Charter as appropriate or necessary.

2. The Committee shall review and discuss with the Independent Accountants and management the Corporation's audited consolidated financial statements that are to be included in the Corporation's annual report on Form 10-K and the Independent Accountants' opinion with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application of such accounting principles.

3. The Committee shall review and discuss with the Independent Accountants and management, and require the Independent Accountants to review, the Corporation's interim consolidated financial statements to be included in the Corporation's quarterly reports on Form 10-Q.

4. The Committee shall review and discuss the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in any annual or quarterly report or other report or filing filed by the Corporation with the SEC.

5. The Committee shall review with management the financial information to be disclosed in the Corporation's earnings press releases, as well as additional financial information that management may provide in accordance with Regulation F-D. Such review may be general in nature and need not take place in advance of each earnings release or release of financial information, and a single member of the Committee may represent the entire Committee for purposes of this review.

B. <u>Independent Accountants</u>

1. The Independent Accountants are ultimately accountable to the Committee, which shall select and appoint (subject to ratification by the stockholders of the Corporation, if applicable) and replace, when appropriate, the Independent Accountants.

2. The Committee shall pre-approve all audit and non-audit services which may legally be provided by the Independent Accountants, including the fees or compensation and other terms of engagement in accordance with Section 10A of the Exchange Act and the rules and regulations of the SEC. The Committee may designate to one or more members of the Committee the authority to grant such pre-approvals.

3. The Committee shall review, at least annually, the independence, qualifications and performance of the Independent Accountants and the performance of the lead audit partner. In conducting such review and evaluation, the Committee shall, at least annually, obtain and review:

- information regarding any material issues raised by the most recent internal quality control review or regulatory or peer review of the Internal Accountants or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting on or more independent audits carried out by the Independent Accountants, and any steps taken to deal with any such issues, and

- a written statement from the Independent Accountants delineating all relationships between the Independent Accountants and the Corporation, consistent with the Independence Standards Board, Standard No. 1, regarding relationships and services that may impact the objectivity and independence of the Independent Accountants, and other applicable standards.

- a summary of services provided by the Independent Accountants to the Corporation and the related fees. The Committee shall discuss with the Independent Accountants any disclosed relationships or services that may impact the objectivity and independence of the Independent Accountants, and shall evaluate the performance of the Independent Accountants.

4. The Committee shall (a) confer with the Independent Accountants concerning the scope of their examinations of the books and records of the Corporation and its subsidiaries, (b) review the scope, plan of work and procedures recommended by the Independent Accountants to be used by them for each audit of the consolidated financial statements of the Corporation, (c) review the results of each audit and interim financial review of the consolidated financial statements of the Corporation (including the Independent Accountants' audit of the consolidated financial statements of the Corporation and accompanying footnotes), any significant changes required in the Independent Accountants' audit plan or scope of such audit, any restrictions on the scope of the Independent Accountants' activities or on their access to requested information, any material differences or disputes with management encountered during the course of the audit or review, any accounting adjustments that were noted or proposed by the Independent Accountants, but were passed (as immaterial or otherwise), any matters that were referred to the Independent Accountants' national office relating to accounting policies and/or financial statement disclosure within the Corporation's financial statements and, to the extent deemed appropriate, determine whether to request an opportunity to address such issues directly with a representative of such national office, any material management letter comments and management's responses to recommendations made by the Independent Accountants in connection with the audit, any matters required to be discussed by Statement on Auditing Standards No. 61, as amended [Communications with Audit Committees] relating to the conduct of the audit and any comments or recommendations of the Independent Accountants and (d) obtain from the Independent Accountants assurance that they have no conflict of interest with the Corporation under Section 10A(l) of the Securities Exchange Act of 1934, as amended.

5. The Committee shall establish written hiring policies for current and former employees of the Independent Accountants, and shall monitor management's compliance with such policies.

6. The Committee shall consider, at least annually, whether, in order to assure continuing auditor independence, there should be regular rotation of the lead audit partner or the Independent Accountants.

7. The Committee shall review the Independent Accountants' ability to attest to and report on management's assertion on its assessment of the effectiveness of the Corporation's internal control structure and its financial reporting procedures in its Form 10-K, when applicable.

C. Financial Reporting Processes

1. The Committee shall review and discuss (a) the existence of significant estimates and judgments underlying the consolidated financial statements of the Corporation, including the rationale behind those estimates as well as the details on material accruals and reserves and the Corporation's accounting principles, (b) all critical accounting

policies identified to the Committee by management or the Independent Accountants, (c) significant changes to the Corporation's accounting principles and practices and (d) material questions of choice with respect to the appropriate accounting principles and practices to be used in the preparation of the Corporation's consolidated financial statements.

2. Review earnings releases and earnings guidance issued by the Corporation for the purpose of ensuring that such press releases and guidance properly disclose financial information presented in accordance with generally accepted accounting principles ("GAAP") and, to the extent pro forma or non-GAAP information is included, adequately disclose how such pro forma or non-GAAP information differs from the comparable GAAP information and that such pro forma or non-GAAP information is not given undue prominence, and to ensure that such press releases and guidance do not otherwise provide misleading presentations of the Corporation's results of operations or financial condition.

3. The Committee shall inquire about and review with management all material off-balance sheet transactions, arrangements and obligations and other relationships of the Corporation with unconsolidated entities or other persons that may have a material current or future effect on financial condition, results of operations, liquidity, capital resources or significant components of revenue or expenses.

4. The Committee shall review periodically and approve all related-party transactions, as defined by rules or regulations of the SEC or Nasdaq, involving the Corporation, as well as any transactions involving the Corporation and any other party in which the parties' relationship could enable the negotiation of terms on other than an independent, arms'-length basis.

5. In consultation with the Independent Accountants and any internal auditors, review the integrity of the Corporation's financial reporting processes, both internal and external.

6. Establish regular and separate systems of reporting to the Committee by each of management, the Independent Accountants and any internal audit group regarding (a) any significant financial reporting issues and judgments made in connection with the preparation of the financial statements of the Corporation, including all alternative treatments of financial information with generally accepted accounting principles that have been discussed with the Corporation's management, the ramification of the use of the alternative disclosures and treatments and the treatment preferred by the Independent Accountants, (b) the view of each as to appropriateness of such judgments and (c) any other matters that each of these groups believes should be discussed privately.

D. Internal Controls and Risk Assessment

1. The Committee shall review annually, with management and the Independent Accountants, if deemed appropriate by the Committee (a) the internal audit budget, staffing and audit plan, (b) material findings of internal audit reviews and management's response, including any significant changes required in the internal auditor's audit plan or scope and any material difficulties or disputes with management encountered during the course of the audit and (c) the effectiveness of or weaknesses in the Corporation's internal controls, including computerized information system controls and security, the overall control environment and accounting and financial controls.

2. The Committee periodically shall consult with the Independent Accountants and obtain their recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the Corporation and its subsidiaries, and review the correction of controls deemed to be deficient.

3. The Committee shall, in accordance with the Sarbanes-Oxley Act and rules and regulations adopted by the SEC or Nasdaq, establish and review procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Corporation of any concerns regarding questionable accounting or auditing matters.

4. The Committee shall review major financial risk exposures and the guidelines and policies which management has implemented to govern the process of monitoring, controlling and reporting such exposures.

5. The Committee shall review with the Independent Accountants, any internal auditing group and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as determined by the Committee.

E. Compliance with Laws, Regulations and Policies

1. The Committee shall review with management their monitoring of the Corporation's compliance with applicable laws and regulations and ensure that the Corporation's disclosure controls and procedures ensure that the Corporation's consolidated financial statements, reports and other financial information disseminated to the SEC and the public satisfy legal requirements

2. The Committee shall periodically review the rules adopted by the SEC and the Nasdaq relating to the qualifications, activities, responsibilities and duties of audit committees and shall take, or recommend that the Board of Directors take, appropriate action to comply with such rules.

F. Reports

1. The Committee shall report regularly to the Board of Directors concerning meetings of the Committee, any issues with respect to the quality or integrity of the Corporation's financial statements, its compliance with legal and regulatory requirements, the performance and independence of the Independent Accountants and such other matters as are relevant to the Committee's discharge of its responsibilities.

2. The Committee shall prepare the report required by the SEC to be included in the Corporation's annual proxy statement and any other Committee reports required by applicable securities laws or the rules or regulations of the SEC or Nasdaq, and shall review any disclosure in the Corporation's annual proxy statement concerning the independence of its members and the Charter.

3. The Committee shall include a copy of the Charter as an appendix to the Corporation's annual proxy statement at least once every three years.

G. General

1. The Committee shall periodically review and evaluate its powers, responsibilities and performance.

2. The Committee shall perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Committee or the Board of Directors deems necessary or appropriate.

3. The Committee shall obtain and make available to members educational resources related to accounting principles and procedures, current accounting topics pertinent to the Corporation or otherwise as requested by members of the Committee.

V. DEFINITIONS

When used herein, the following terms shall have the meanings set forth below:

- "Audit Committee" means that certain committee of the Board established at a meeting of the Board held on February

17, 1999, having such attributes, duties and responsibilities as set forth in this Charter.

- "Board" or "Board of Directors" means the Board of Directors of the Corporation.
- "Charter" means this Charter of the Audit Committee of the Board of Directors of webMethods, Inc., as amended from time to time.
- "Committee" means the Audit Committee.
- "Corporation" means webMethods, Inc., a Delaware corporation.
- "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- "Independent Accountants" mean an independent public accounting firm or registered public accounting firm that examines the financial statements of the Corporation in accordance with the rules and regulations of the SEC or the Public Company Accounting Oversight Board for the purpose of expressing an opinion on such statements.
- "Independent Director" means a director of the Corporation that meets the criteria for independence for purposes of service as a member of the Committee as set forth from time to time on the Corporation's Articles of Incorporation, the Exchange Act and the rules or regulations of the SEC, the NASD Manual and the rules and regulations of Nasdaq and any other laws or regulations applicable to the Corporation.
- "Nasdaq" means the Nasdaq Stock Market, Inc., any successor entity or the principal self-regulatory organization on which the common stock of the Corporation is quoted or traded.
- "SEC" means the U.S. Securities and Exchange Commission.

* * * *

Last Revised: July 7, 2003

webMethods.

3877 Fairfax Ridge Road - South Tower
Fairfax, VA 22030

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern time August 28, 2006. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS
If you would like to reduce the costs incurred by webMethods, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote

using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern time August 28, 2006. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return to webMethods, Inc., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

1404436074 1

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: WBMTHI KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

webMethods, Inc.

The Board of Directors unanimously recommends that you vote FOR Proposal 1 (Election of Board of Director nominees), FOR Proposal 2 (Ratification of Selection of Independent Registered Public Accounting Firm) and FOR Proposal 3 (Approval of 2006 Omnibus Stock Incentive Plan).	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee, mark "For All Except" and write the nominee's number on the line below.
Vote On Directors				
1. Election of Directors Nominees: 01) Bill Russell 02) R. James Green 03) Peter Gyenes	0	0	0	

Vote On Proposals	For	Against	Abstain
2. Ratification of the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for the year ending March 31, 2007.	0	0	0
3. Approval of the webMethods, Inc. 2006 Omnibus Stock Incentive Plan.	0	0	0

In accordance with their judgment, the proxies are authorized to vote upon such other matters as may properly come before the 2006 annual meeting of stockholders of webMethods, Inc. or any continuation or postponement thereof.

This Proxy must be signed exactly as your name appears hereon. If more than one name appears, all persons so designated should sign. Attorneys, executors, administrators, trustees and guardians should indicate their capacities. If the signer is a partnership, corporation or other legal entity, please print full partnership, corporate or entity name and indicate capacity of duly authorized person executing on behalf of it.

For comments, please check this box and write them on

AJS000336

the back where indicated 0

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THIS PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE PRIOR TO THE MEETING.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

1404436074 2

FORM OF PROXY

webMethods, Inc.
3877 Fairfax Ridge Road, South Tower
Fairfax, Virginia 22030

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints David Mitchell and Douglas W. McNitt or either of them, as proxies, each with full powers of substitution, and hereby authorizes them to represent and to vote, as designated on the reverse side, all shares of Common Stock, $0.01 par value, of webMethods, Inc. held of record by the undersigned on June 30, 2006, at the annual meeting of stockholders of webMethods, Inc. to be held on August 29, 2006, at 9:00 a.m. local time, at the Hyatt Regency Reston, 1800 Presidents Street, Reston, Virginia 20190 or any continuations or postponements thereof.

This Proxy, when properly executed and returned in a timely manner, will be voted as indicated with respect to the proposals on the reverse side and in accordance with the judgment of the persons named as proxies on any other matters that may properly come before the meeting or any continuations or postponements thereof.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY USING THE ENCLOSED ENVELOPE OR FOLLOW THE INSTRUCTIONS PROVIDED HEREIN TO VOTE BY TELEPHONE OR INTERNET.

Comments:

(If you noted any Comments above, please mark corresponding box on the reverse side.)

CONTINUED AND TO BE SIGNED AND DATED ON THE REVERSE SIDE

14044356074 3

AJS000338

Bill Summary & Status
Search Results

Text searched: outsourcing

NEXT PAGE | PREVIOUS PAGE | NEW SEARCH

Items **1** through **7** of **7**

1. [111th] H.R.4650 : Stop Outsourcing Security Act
Sponsor: Rep Schakowsky, Janice D. [IL-9] (introduced 2/23/2010) Cosponsors (30)
Committees: House Foreign Affairs; House Armed Services; House Intelligence (Permanent Select)
Latest Major Action: 2/23/2010 Referred to House committee. Status: Referred to the Committee on Foreign Affairs, and in addition to the Committees on Armed Services, and Intelligence (Permanent Select), for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

2. [111th] H.R.4788 : Aviation Jobs Outsourcing Prevention Act
Sponsor: Rep Bishop, Timothy H. [NY-1] (introduced 3/9/2010) Cosponsors (95)
Committees: House Transportation and Infrastructure
Latest Major Action: 3/10/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Aviation.

---

3. [111th] H.R.4994 : Medicare and Medicaid Extenders Act of 2010
Sponsor: Rep Lewis, John [GA-5] (introduced 4/13/2010) Cosponsors (20)
Committees: House Ways and Means; House Budget; Senate Finance
Latest Major Action: Became Public Law No: 111-309 [**GPO:** Text, PDF]

---

4. [111th] H.R.5115 : FSS Retirement Fairness Act of 2010
Sponsor: Rep Schauer, Mark H. [MI-7] (introduced 4/22/2010) Cosponsors (5)
Committees: House Oversight and Government Reform
Latest Major Action: 5/25/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Federal Workforce, Post Office, and the District of Columbia.

---

5. [111th] H.R.5622 : Stop Outsourcing and Create American Jobs Act of 2010
Sponsor: Rep McNerney, Jerry [CA-11] (introduced 6/29/2010) Cosponsors (2)
Committees: House Ways and Means; House Oversight and Government Reform
Latest Major Action: 6/29/2010 Referred to House committee. Status: Referred to the Committee on Ways and Means, and in addition to the Committee on Oversight and Government Reform, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

6. [111th] S.3023 : Stop Outsourcing Security Act
Sponsor: Sen Sanders, Bernard [VT] (introduced 2/23/2010) **Cosponsors** (None)
Committees: Senate Armed Services
Latest Major Action: 2/23/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Armed Services.

---

7. [111th] S.3396 : Supply Star Act of 2010
Sponsor: Sen Bingaman, Jeff [NM] (introduced 5/24/2010) Cosponsors (4)
Committees: Senate Energy and Natural Resources
Senate Reports: 110-319
Latest Major Action: 9/27/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 605.

1404440637045

AJS000340

Bill Summary & Status
Search Results

Text searched: job

NEXT PAGE | **PREVIOUS PAGE** | **NEW SEARCH**

Items **1** through **100** of **214**

1. [111th] H.R.4458 : I-WERC Act
Sponsor: Rep Weiner, Anthony D. [NY-9] (introduced 1/13/2010) **Cosponsors** (None)
Committees: House Judiciary
Latest Major Action: 3/1/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Crime, Terrorism, and Homeland Security.

2. [111th] H.R.4513 : Job Creation Act of 2010
Sponsor: Rep Buchanan, Vern [FL-13] (introduced 1/26/2010) Cosponsors (1)
Committees: House Ways and Means; House Financial Services; House Judiciary
Latest Major Action: 6/15/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Courts and Competition Policy.

3. [111th] H.R.4529 : Roadmap for America's Future Act of 2010
Sponsor: Rep Ryan, Paul [WI-1] (introduced 1/27/2010) Cosponsors (14)
Committees: House Ways and Means; House Energy and Commerce; House Education and Labor; House Rules; House Budget; House Judiciary
Latest Major Action: 2/23/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Health, Employment, Labor, and Pensions.

4. [111th] H.R.4549 : Small Business Innovation to Job Creation Act of 2010
Sponsor: Rep Tonko, Paul [NY-21] (introduced 1/27/2010) Cosponsors (9)
Committees: House Small Business; House Science and Technology
Latest Major Action: 1/27/2010 Referred to House committee. Status: Referred to the Committee on Small Business, and in addition to the Committee on Science and Technology, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

5. [111th] H.R.4553 : 21st Century Buy American Act
Sponsor: Rep Murphy, Christopher S. [CT-5] (introduced 2/2/2010) Cosponsors (17)
Committees: House Oversight and Government Reform
Latest Major Action: 2/2/2010 Referred to House committee. Status: Referred to the House Committee on Oversight and Government Reform.

6. [111th] H.R.4564 : Emergency Jobs Program and Assistance for Families Extension Act

140443607446

Sponsor: Rep McDermott, Jim [WA-7] (introduced 2/2/2010)   Cosponsors (95)
Committees: House Ways and Means
Latest Major Action: 2/24/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Income Security and Family Support.

---

7. [111th] H.R.4565 : Rural Jobs Tax Credit Act of 2010
Sponsor: Rep Owens, William L. [NY-23] (introduced 2/2/2010)   Cosponsors (3)
Committees: House Ways and Means
Latest Major Action: 2/2/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

8. [111th] H.R.4585 : Small Business Job Creation Tax Act of 2010
Sponsor: Rep Maloney, Carolyn B. [NY-14] (introduced 2/3/2010)   Cosponsors (2)
Committees: House Ways and Means
Latest Major Action: 2/3/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

9. [111th] H.R.4592 : *Energy Jobs for Veterans Act*
Sponsor: Rep Teague, Harry [NM-2] (introduced 2/3/2010)   Cosponsors (4)
Committees: House Veterans' Affairs; Senate Veterans' Affairs
House Reports: 110-453
Latest Major Action: 3/24/2010 Referred to Senate committee. Status: Received in the Senate and Read twice and referred to the Committee on Veterans' Affairs.

---

10. [111th] H.R.4620 : Small Business Job Creation Act of 2010
Sponsor: Rep McNerney, Jerry [CA-11] (introduced 2/9/2010)   **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 2/9/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

11. [111th] H.R.4634 : Transparency in Job Loss from Fishery Closures Act of 2010
Sponsor: Rep Brown, Henry E., Jr. [SC-1] (introduced 2/22/2010)   Cosponsors (7)
Committees: House Natural Resources
Latest Major Action: 2/25/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Insular Affairs, Oceans and Wildlife.

---

12. [111th] H.R.4655 : Small Business Expansion and Job Creation Act of 2010
Sponsor: Rep Bright, Bobby [AL-2] (introduced 2/23/2010)   **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 2/23/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

13. [111th] H.R.4677 : Protecting Employees and Retirees in Business Bankruptcies Act of 2010
Sponsor: Rep Conyers, John, Jr. [MI-14] (introduced 2/24/2010)   Cosponsors (58)
Committees: House Judiciary
Latest Major Action: 9/15/2010 House committee/subcommittee actions. Status: Forwarded by Subcommittee to Full Committee (Amended) by the Yeas and Nays: 8 - 4 .

14. [111th] H.R.4680 : Jobs Momentum Act of 2010
Sponsor: Rep Ellsworth, Brad [IN-8] (introduced 2/24/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 2/24/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

15. [111th] H.R.4687 : Low Income Housing Tax Credit Exchange Expansion and Job Creation Act of 2010
Sponsor: Rep Sanchez, Linda T. [CA-39] (introduced 2/24/2010) Cosponsors (15)
Committees: House Financial Services; House Ways and Means
Latest Major Action: 2/24/2010 Referred to House committee. Status: Referred to tho Committee on Financial Services, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

16. [111th] H.R.4688 : Community Reintegration and Crime Prevention Act of 2010
Sponsor: Rep Sestak, Joe [PA-7] (introduced 2/24/2010) **Cosponsors** (None)
Committees: House Judiciary
Latest Major Action: 4/26/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Crime, Terrorism, and Homeland Security.

---

17. [111th] H.R.4692 : National Manufacturing Strategy Act of 2010
Sponsor: Rep Lipinski, Daniel [IL-3] (introduced 2/25/2010) Cosponsors (60)
Committees: House Energy and Commerce; House Budget; Senate Commerce, Science, and Transportation
House Reports: 110-574 Part 1
Latest Major Action: 8/5/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Commerce, Science, and Transportation.

---

18. [111th] H.R.4693 : Military Spouse Job Continuity Act of 2010
Sponsor: Rep Dahlkemper, Kathleen A. [PA-3] (introduced 2/25/2010) Cosponsors (81)
Committees: House Ways and Means
Latest Major Action: 2/25/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

19. [111th] H.R.4730 : Tax Credits for Jobs Now Act of 2010
Sponsor: Rep Schauer, Mark H. [MI-7] (introduced 3/2/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 3/2/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

20. [111th] H.R.4740 : Jobs for Urban Sustainability in America Act
Sponsor: Rep Cohen, Steve [TN-9] (introduced 3/3/2010) Cosponsors (8)
Committees: House Financial Services; House Transportation and Infrastructure; House Ways and Means; House Education and Labor
Latest Major Action: 3/22/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

1404436074 8

21. [111th] H.R.4746 : To amend the Internal Revenue Code of 1986 to prevent pending tax increases, and for other purposes.
Sponsor: Rep Neugebauer, Randy [TX-19] (introduced 3/3/2010) Cosponsors (76)
Committees: House Ways and Means
Latest Major Action: 3/3/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

22. [111th] H.R.4769 : Creating Jobs From Innovative Small Businesses Act of 2010
Sponsor: Rep Holt, Rush D. [NJ-12] (introduced 3/4/2010) Cosponsors (4)
Committees: House Ways and Means
Latest Major Action: 3/4/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

23. [111th] H.R.4770 : Create Jobs by Expanding the R&D Tax Credit Act of 2010
Sponsor: Rep Holt, Rush D. [NJ-12] (introduced 3/4/2010) Cosponsors (9)
Committees: House Ways and Means
Latest Major Action: 3/4/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

24. [111th] H.R.4779 : Small Business Jobs and Tax Relief Act of 2010
Sponsor: Rep Pomeroy, Earl [ND] (introduced 3/4/2010) Cosponsors (1)
Committees: House Ways and Means
Latest Major Action: 3/4/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

25. [111th] H.R.4788 : Aviation Jobs Outsourcing Prevention Act
Sponsor: Rep Bishop, Timothy H. [NY-1] (introduced 3/9/2010) Cosponsors (95)
Committees: House Transportation and Infrastructure
Latest Major Action: 3/10/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Aviation.

---

26. [111th] H.R.4812 : Local Jobs for America Act
Sponsor: Rep Miller, George [CA-7] (introduced 3/10/2010) Cosponsors (163)
Committees: House Education and Labor
Latest Major Action: 3/22/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

---

27. [111th] H.R.4819 : Expanding Opportunities for Older Americans Act of 2010
Sponsor: Rep Richardson, Laura [CA-37] (introduced 3/10/2010) Cosponsors (7)
Committees: House Education and Labor
Latest Major Action: 3/22/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Healthy Families and Communities.

---

28. [111th] H.R.4830 : Women and Workforce Investment for Nontraditional Jobs
Sponsor: Rep Polis, Jared [CO-2] (introduced 3/11/2010) Cosponsors (59)
Committees: House Education and Labor
Latest Major Action: 3/22/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness.

29. [111th] H.R.4841 : Small Business Tax Relief and Job Growth Act of 2010
Sponsor: Rep Velazquez, Nydia M. [NY-12] (introduced 3/12/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 3/12/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

30. [111th] H.R.4848 : Tax Cut Job Creation Act of 2010
Sponsor: Rep Young, Don [AK] (introduced 3/15/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 3/15/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

31. [111th] H.R.4849 : Small Business and Infrastructure Jobs Tax Act of 2010
Sponsor: Rep Levin, Sander M. [MI-12] (introduced 3/16/2010) Cosponsors (17)
Committees: House Ways and Means; Senate Finance
House Reports: 110-447
Latest Major Action: 3/26/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

32. [111th] H.R.4850 : American Job Creation and Investment Act
Sponsor: Rep Peters, Gary C. [MI-9] (introduced 3/16/2010) Cosponsors (77)
Committees: House Ways and Means
Latest Major Action: 3/16/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

33. [111th] H.R.4853 : Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010
Sponsor: Rep Oberstar, James L. [MN-8] (introduced 3/16/2010) Cosponsors (5)
Committees: House Transportation and Infrastructure; House Ways and Means
Latest Major Action: Became Public Law No: 111-312 [**GPO:** Text, PDF]

---

34. [111th] H.R.4872 : Health Care and Education Reconciliation Act of 2010
Sponsor: Rep Spratt, John M., Jr. [SC-5] (introduced 3/17/2010) **Cosponsors** (None)
Committees: House Budget
House Reports: 110-443
Latest Major Action: Became Public Law No: 111-152 [**GPO:** Text, PDF]
Note: The bill makes a number of health-related financing and revenue changes to the Patient Protection and Affordable Care Act enacted by H.R.3590 and modifies higher education assistance provisions.

---

35. [111th] H.R.4878 : Tax Cut Job Creation Act of 2010
Sponsor: Rep Young, Don [AK] (introduced 3/18/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 3/18/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

36. [111th] H.R.4880 : Copper Basin Jobs Act

Sponsor: Rep Kirkpatrick, Ann [AZ-1] (introduced 3/18/2010) **Cosponsors** (None)
Committees: House Natural Resources
Latest Major Action: 3/22/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on National Parks, Forests and Public Lands.

---

37. [111th] H.R.4899 : Supplemental Appropriations Act, 2010
Sponsor: Rep Obey, David R. [WI-7] (introduced 3/21/2010) **Cosponsors** (None)
Committees: House Appropriations; House Budget; Senate Appropriations
Senate Reports: 110-188
Latest Major Action: Became Public Law No: 11t-212 [**GPO:** Text, PDF]

---

38. [111th] H.R.4914 : Coastal Jobs Creation Act of 2010
Sponsor: Rep Pallone, Frank, Jr. [NJ-6] (introduced 3/23/2010) Cosponsors (79)
Committees: House Natural Resources; House Science and Technology
Latest Major Action: 7/27/2010 House committee/subcommittee actions. Status: Subcommittee Hearings Held.

---

39. [111th] H.R.4920 : Employing Youth for the American Dream Act of 2010
Sponsor: Rep Rush, Bobby L. [IL-1] (introduced 3/24/2010) Cosponsors (44)
Committees: House Education and Labor; House Ways and Means; House Natural Resources; House Oversight and Government Reform
Latest Major Action: 4/30/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness.

---

40. [111th] H.R.4965 : Targeted Job Creation and Business Investment Act
Sponsor: Rep Donnelly, Joe [IN-2] (introduced 3/25/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 3/25/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

41. [111th] H.R.4976 : Internet Gambling Regulation and Tax Enforcement Act of 2010
Sponsor: Rep McDermott, Jim [WA-7] (introduced 3/25/2010) Cosponsors (4)
Committees: House Ways and Means; House Education and Labor
Latest Major Action: 4/30/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Healthy Families and Communities.

---

42. [111th] H.R.5013 : *Implementing Management for Performance and Related Reforms to Obtain Value in Every Acquisition Act of 2010*
Sponsor: Rep Andrews, Robert E. [NJ-1] (introduced 4/14/2010) Cosponsors (9)
Committees: House Armed Services; House Oversight and Government Reform; Senate Armed Services
House Reports: 110-465 Part 1
Latest Major Action: 4/29/2010 Referred to Senate committee. Status: Received in the Senate and Read twice and referred to the Committee on Armed Services.

---

43. [111th] H.R.5038 : *Fair Access to Credit and Job Creation Act of 2010*
Sponsor: Rep Hensarling, Jeb [TX-5] (introduced 4/15/2010) Cosponsors (3)
Committees: House Financial Services

Latest Major Action: 4/15/2010 Referred to House committee. Status: Referred to the House Committee on Financial Services.

---

44. [111th] H.R.5084 : America Recruits Act of 2010
Sponsor: Rep Murphy, Scott [NY-20] (introduced 4/20/2010) Cosponsors (5)
Committees: House Transportation and Infrastructure; House Financial Services
Latest Major Action: 4/21/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Economic Development, Public Buildings and Emergency Management.

---

45. [111th] H.R.5089 : Business Incubator Promotion Act
Sponsor: Rep Ryan, Tim [OH-17] (introduced 4/21/2010) Cosponsors (7)
Committees: House Transportation and Infrastructure; House Financial Services
Latest Major Action: 4/22/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Economic Development, Public Buildings and Emergency Management.

---

46. [111th] H.R.5116 : America COMPETES Reauthorization Act of 2010
Sponsor: Rep Gordon, Bart [TN-6] (introduced 4/22/2010) Cosponsors (101)
Committees: House Science and Technology; House Education and Labor; Senate Commerce, Science, and Transportation
House Reports: 110-478 Part 1
Latest Major Action: Became Public Law No: 11t-358 [**GPO:** Text, PDF]

---

47. [111th] H.R.5119 : Radiation Exposure Compensation Act Amendments of 2010
Sponsor: Rep Lujan, Ben Ray [NM-3] (introduced 4/22/2010) Cosponsors (10)
Committees: House Judiciary; House Energy and Commerce
Latest Major Action: 6/15/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law.

---

48. [111th] H.R.5120 : Veteran Employment Assistance Act of 2010
Sponsor: Rep Smith, Adam [WA-9] (introduced 4/22/2010) Cosponsors (41)
Committees: House Veterans' Affairs; House Education and Labor; House Small Business; House Energy and Commerce; House Armed Services
Latest Major Action: 5/27/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness.

---

49. [111th] H.R.5134 : Groundwork USA Trust Act of 2010
Sponsor: Rep Tsongas, Niki [MA-5] (introduced 4/22/2010) Cosponsors (9)
Committees: House Energy and Commerce; House Natural Resources; House Financial Services
Latest Major Action: 4/28/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on National Parks, Forests and Public Lands.

---

50. [111th] H.R.5136 : National Defense Authorization Act for Fiscal Year 2011
Sponsor: Rep Skelton, Ike [MO-4] (by request) (introduced 4/26/2010) Cosponsors (1)
Committees: House Armed Services; House Homeland Security
House Reports: 110-491, 110-491 Part 2
Latest Major Action: 6/28/2010 Received in the Senate. Read twice. Placed on Senate Legislative Calendar under General Orders. Calendar No. 447.

51. **[111th]** H.R.5156 : Clean Energy Technology Manufacturing and Export Assistance Act of 2010
Sponsor: Rep Matsui, Doris O. [CA-5] (introduced 4/27/2010) Cosponsors (18)
Committees: House Foreign Affairs; House Energy and Commerce; Senate Commerce, Science, and Transportation
House Reports: 110-572 Part 1
Latest Major Action: 8/5/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Commerce, Science, and Transportation.

---

52. **[111th]** H.R.5174 : Fuel Cell Industrial Vehicle Jobs Act of 2010
Sponsor: Rep Tonko, Paul [NY-21] (introduced 4/28/2010) Cosponsors (11)
Committees: House Ways and Means
Latest Major Action: 4/28/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

53. **[111th]** H.R.5193 : StartUp Visa Act of 2010
Sponsor: Rep Maloney, Carolyn B. [NY-14] (introduced 4/29/2010) Cosponsors (1)
Committees: House Judiciary
Latest Major Action: 6/15/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law.

---

54. **[111th]** H.R.5204 : 21st Century Full Employment and Training Act
Sponsor: Rep Conyers, John, Jr. [MI-14] (introduced 5/4/2010) Cosponsors (1)
Committees: House Education and Labor; House Ways and Means
Latest Major Action: 5/27/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

---

55. **[111th]** H.R.5269 : To express the sense of Congress that Federal job training programs that target older adults should work with nonprofit organizations that have a record of success in developing and implementing research-based technology curriculum designed specifically for older adults.
Sponsor: Rep Clay, Wm. Lacy [MO-1] (introduced 5/11/2010) Cosponsors (3)
Committees: House Education and Labor
Latest Major Action: 6/29/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Healthy Families and Communities.

---

56. **[111th]** H.R.5297 : Small Business Jobs Act of 2010
Sponsor: Rep Frank, Barney [MA-4] (introduced 5/13/2010) Cosponsors (20)
Committees: House Financial Services
House Reports: 110-499
Latest Major Action: Became Public Law No: 11t-240 [**GPO:** Text, PDF]

---

57. **[111th]** H.R.5312 : Reciprocal Government Procurement with China Creates American Jobs Act
Sponsor: Rep Schauer, Mark H. [MI-7] (introduced 5/13/2010) Cosponsors (20)
Committees: House Oversight and Government Reform; House Ways and Means; House Transportation and Infrastructure
Latest Major Action: 5/26/2010 Referred to House subcommittee. Status: Referred to the

1404430753

Subcommittee on Government Management, Organization, and Procurement.

---

58. [111th] H.R.5360 : HELP Veterans Act of 2010
Sponsor: Rep Herseth Sandlin, Stephanie [SD] (introduced 5/20/2010) Cosponsors (3)
Committees: House Veterans' Affairs; Senate Veterans' Affairs
House Reports: 110-626
Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Received in the Senate and Read twice and referred to the Committee on Veterans' Affairs.

---

59. [111th] H.R.5381 : Motor Vehicle Safety Act of 2010
Sponsor: Rep Waxman, Henry A. [CA-30] (introduced 5/25/2010) Cosponsors (4)
Committees: House Energy and Commerce
House Reports: 110-536
Latest Major Action: 7/14/2010 Placed on the Union Calendar, Calendar No. 307.

---

60. [111th] H.R.5396 : Green Energy Efficient Roofs and Job Creation Act of 2010
Sponsor: Rep Pascrell, Bill, Jr. [NJ-8] (introduced 5/25/2010) Cosponsors (9)
Committees: House Ways and Means
Latest Major Action: 5/25/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

61. [111th] H.R.5409 : Residential Construction Lending Act
Sponsor: Rep Miller, Brad [NC-13] (introduced 5/26/2010) Cosponsors (11)
Committees: House Financial Services
Latest Major Action: 5/26/2010 Referred to House committee. Status: Referred to the House Committee on Financial Services.

---

62. [111th] H.R.5420 : Incentives for Successful Companies Act of 2010
Sponsor: Rep Perlmutter, Ed [CO-7] (introduced 5/26/2010) Cosponsors (1)
Committees: House Ways and Means
Latest Major Action: 5/26/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

63. [111th] H.R.5452 : Native American Economic Advisory Council Act of 2010
Sponsor: Rep Young, Don [AK] (introduced 5/27/2010) **Cosponsors** (None)
Committees: House Natural Resources
Latest Major Action: 5/27/2010 Referred to House committee. Status: Referred to the House Committee on Natural Resources.

---

64. [111th] H.R.5476 : Building Star Energy Efficiency Act of 2010
Sponsor: Rep Welch, Peter [VT] (introduced 5/28/2010) Cosponsors (20)
Committees: House Energy and Commerce
Latest Major Action: 5/28/2010 Referred to House committee. Status: Referred to the House Committee on Energy and Commerce.

---

65. [111th] H.R.5486 : To amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, and for other purposes.

Sponsor: Rep Levin, Sander M. [MI-12] (introduced 6/9/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 6/15/2010 Passed/agreed to in House. Status: On passage Passed by recorded vote: 247 - 170 (Roll no. 363).
Latest Action: 6/17/2010 Pursuant to the provisions of H. Res. 1436, H.R. 5486 is laid on the table.

---

66. [111th] H.R.5519 : Gulf Coast Jobs Preservation Act
Sponsor: Rep Cassidy, Bill [LA-6] (introduced 6/14/2010) Cosponsors (46)
Committees: House Natural Resources
Latest Major Action: 6/15/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Energy and Mineral Resources.

---

67. [111th] H.R.5551 : To require the Secretary of the Treasury to make a certification when making purchases under the Small Business Lending Fund Program.
Sponsor: Rep Kosmas, Suzanne M. [FL-24] (introduced 6/17/2010) Cosponsors (1)
Committees: House Financial Services
Latest Major Action: 6/25/2010 Read the second time. Placed on Senate Legislative Calendar under General Orders. Calendar No. 443.

---

68. [111th] H.R.5558 : Older Americans' Job Opportunities Blueprint Act of 2010
Sponsor: Rep Giffords, Gabrielle [AZ-8] (introduced 6/17/2010) Cosponsors (1)
Committees: House Ways and Means; House Education and Labor
Latest Major Action: 9/13/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Healthy Families and Communities.

---

69. [111th] H.R.5622 : Stop Outsourcing and Create American Jobs Act of 2010
Sponsor: Rep McNerney, Jerry [CA-11] (introduced 6/29/2010) Cosponsors (2)
Committees: House Ways and Means; House Oversight and Government Reform
Latest Major Action: 6/29/2010 Referred to House committee. Status: Referred to the Committee on Ways and Means, and in addition to the Committee on Oversight and Government Reform, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

70. [111th] H.R.5631 : Gulf Coast Conservation Corps Act of 2010
Sponsor: Rep Hastings, Alcee L. [FL-23] (introduced 6/29/2010) Cosponsors (10)
Committees: House Education and Labor; House Transportation and Infrastructure
Latest Major Action: 10/13/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

---

71. [111th] H.R.5637 : American Jobs Matter Act of 2010
Sponsor: Rep Murphy, Christopher S. [CT-5] (introduced 6/29/2010) Cosponsors (11)
Committees: House Oversight and Government Reform; House Armed Services
Latest Major Action: 7/28/2010 House committee/subcommittee actions. Status: Ordered to be Reported (Amended) by Voice Vote.

---

72. [111th] H.R.5663 : Robert C. Byrd Miner Safety and Health Act of 2010
Sponsor: Rep Miller, George [CA-7] (introduced 7/1/2010) Cosponsors (55)

Committees: House Education and Labor; House Judiciary
House Reports: 110-579 Part 1
Latest Major Action: 7/29/2010 Placed on the Union Calendar, Calendar No. 334.

---

73. [111th] H.R.5678 : Universal Access to Methamphetamine Treatment Act of 2010
Sponsor: Rep Carnahan, Russ [MO-3] (introduced 7/1/2010) Cosponsors (10)
Committees: House Energy and Commerce
Latest Major Action: 7/1/2010 Referred to House committee. Status: Referred to the House Committee on Energy and Commerce.

---

74. [111th] H.R.5708 : Urban Jobs Act of 2010
Sponsor: Rep Towns, Edolphus [NY-10] (introduced 7/1/2010) **Cosponsors** (None)
Committees: House Education and Labor
Latest Major Action: 10/13/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness.

---

75. [111th] H.R.5749 : Offshore Worker Whistleblower Protection Act
Sponsor: Rep Miller, George [CA-7] (introduced 7/15/2010) Cosponsors (1)
Committees: House Education and Labor; House Natural Resources
Latest Major Action: 10/13/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

---

76. [111th] H.R.5767 : Innovative Technologies Investment Incentive Act of 2010
Sponsor: Rep Van Hollen, Chris [MD-8] (introduced 7/15/2010) Cosponsors (5)
Committees: House Ways and Means
Latest Major Action: 7/15/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

77. [111th] H.R.5789 : SDHV Energy Efficiency Standards for America Act of 2010
Sponsor: Rep Carnahan, Russ [MO-3] (introduced 7/20/2010) Cosponsors (7)
Committees: House Ways and Means; House Energy and Commerce
Latest Major Action: 7/20/2010 Referred to House committee. Status: Referred to the Committee on Ways and Means, and in addition to the Committee on Energy and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

78. [111th] H.R.5797 : Small Manufacturers Export Initiative Act
Sponsor: Rep Larsen, Rick [WA-2] (introduced 7/20/2010) Cosponsors (6)
Committees: House Foreign Affairs; House Science and Technology
Latest Major Action: 7/23/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Technology and Innovation.

---

79. [111th] H.R.5855 : Johnson Space Center Workforce Stability Act of 2010
Sponsor: Rep Green, Al [TX-9] (introduced 7/26/2010) Cosponsors (3)
Committees: House Education and Labor; House Transportation and Infrastructure; House Financial Services
Latest Major Action: 10/13/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness.

80. [111th] H.R.5871 : SEED Act
Sponsor: Rep Carnahan, Russ [MO-3] (introduced 7/27/2010) **Cosponsors** (None)
Committees: House Transportation and Infrastructure; House Financial Services
Latest Major Action: 7/28/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Economic Development, Public Buildings and Emergency Management.

---

81. [111th] H.R.5878 : Economic Fair Treatment and Job Creation Act of 2010
Sponsor: Rep Clyburn, James E. [SC-6] (introduced 7/27/2010) **Cosponsors** (None)
Committees: House Ways and Means; House Education and Labor
Latest Major Action: 10/13/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

---

82. [111th] H.R.5883 : Renewable Energy Jobs and Security Act
Sponsor: Rep Inslee, Jay [WA-1] (introduced 7/27/2010) Cosponsors (4)
Committees: House Energy and Commerce; House Science and Technology; House Ways and Means
Latest Major Action: 7/27/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Energy and Environment.

---

83. [111th] H.R.5893 : Investing in American Jobs and Closing Tax Loopholes Act of 2010
Sponsor: Rep Levin, Sander M. [MI-12] (introduced 7/28/2010) Cosponsors (20)
Committees: House Ways and Means; House Budget
Latest Major Action: 7/29/2010 House floor actions. Status: The previous question was ordered pursuant to the rule.
Latest Action: 7/29/2010 POSTPONED PROCEEDINGS - Pursuant to clause 2c of rule 19, the Chair postponed further proccedings on H.R. 5893 until a time to be announced.

---

84. [111th] H.R.5897 : Economic Revitalization and Innovation Act of 2010
Sponsor: Rep Oberstar, James L. [MN-8] (introduced 7/28/2010) Cosponsors (14)
Committees: House Transportation and Infrastructure; House Financial Services
House Reports: 110-652 Part 1
Latest Major Action: 9/29/2010 Placed on the Union Calendar, Calendar No. 390.

---

85. [111th] H.R.5901 : Real Estate Jobs and Investment Act of 2010
Sponsor: Rep Crowley, Joseph [NY-7] (introduced 7/28/2010) **Cosponsors** (None)
Committees: House Ways and Means; House Budget
Latest Major Action: Became Public Law No: 11t-366 [**GPO:** Text, PDF]

---

86. [111th] H.R.5933 : Post-9/11 Veterans Educational Assistance Improvements Act of 2010
Sponsor: Rep Minnick, Walter [ID-1] (introduced 7/29/2010) Cosponsors (125)
Committees: House Veterans' Affairs
Latest Major Action: 7/30/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Economic Opportunity.

---

87. [111th] H.R.5940 : Save U.S. Manufacturing and Jobs Act
Sponsor: Rep Aderholt, Robert B. [AL-4] (introduced 7/29/2010) Cosponsors (15)

1404436 0757

AJS000352

Committees: House Ways and Means
Latest Major Action: 7/29/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

88. [111th] H.R.5980 : Bring Jobs Back to America: Strategic Manufacturing & Job Repatriation Act
Sponsor: Rep Wolf, Frank R. [VA-10] (introduced 7/29/2010) Cosponsors (5)
Committees: House Energy and Commerce; House Judiciary; House Ways and Means; House Financial Services; House Transportation and Infrastructure; House Science and Technology
Latest Major Action: 8/10/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Technology and Innovation.

---

89. [111th] H.R.5984 : CHEF Act
Sponsor: Rep Richardson, Laura [CA-37] (introduced 7/30/2010) Cosponsors (3)
Committees: House Judiciary
Latest Major Action: 9/20/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Crime, Terrorism, and Homeland Security.

---

90. [111th] H.R.6025 : Manufacturing Reinvestment Account Act of 2010
Sponsor: Rep DeLauro, Rosa L. [CT-3] (introduced 7/30/2010) Cosponsors (10)
Committees: House Ways and Means
Latest Major Action: 7/30/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

91. [111th] H.R.6060 : American Textile Technology Innovation and Research for Exportation (ATTIRE) Act
Sponsor: Rep Price, David E. [NC-4] (introduced 7/30/2010) Cosponsors (2)
Committees: House Science and Technology
Latest Major Action: 8/10/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Technology and Innovation.

---

92. [111th] H.R.6097 : American Job Builders Tax Reform Act of 2010
Sponsor: Rep Herger, Wally [CA-2] (introduced 8/10/2010) Cosponsors (2)
Committees: House Ways and Means
Latest Major Action: 8/10/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

93. [111th] H.R.6108 : To strike certain provisions of Public Law 111-226 relating to Texas and the Education Jobs Fund.
Sponsor: Rep Burgess, Michael C. [TX-26] (introduced 9/14/2010) Cosponsors (19)
Committees: House Education and Labor
Latest Major Action: 11/18/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Workforce Protections.

---

94. [111th] H.R.6132 : Veterans Benefits and Economic Welfare Improvement Act of 2010
Sponsor: Rep Filner, Bob [CA-51] (introduced 9/15/2010) Cosponsors (7)
Committees: House Veterans' Affairs; Senate Veterans' Affairs
House Reports: 110-630

4044360758

Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Received in the Senate and Read twice and referred to the Committee on Veterans' Affairs.

---

95. [111th] H.R.6141 : Marcellus Shale On-the-Job Training Act of 2010
Sponsor: Rep Sestak, Joe [PA-7] (introduced 9/15/2010) Cosponsors (4)
Committees: House Education and Labor
Latest Major Action: 11/18/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Higher Education, Lifelong Learning, and Competitiveness.

---

96. [111th] H.R.6165 : Life Sciences Jobs and Investment Act of 2010
Sponsor: Rep Schwartz, Allyson Y. [PA-13] (introduced 9/22/2010) Cosponsors (3)
Committees: House Ways and Means
Latest Major Action: 9/22/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

97. [111th] H.R.6174 : Linked Learning Pathways Affording College and Career Success Act
Sponsor: Rep Chu, Judy [CA-32] (introduced 9/22/2010) Cosponsors (3)
Committees: House Education and Labor
Latest Major Action: 11/18/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Early Childhood, Elementary, and Secondary Education.

---

98. [111th] H.R.6191 : To amend the Small Business Jobs Act of 2010 to include certain construction and land development loans in the definition of small business lending.
Sponsor: Rep Miller, Brad [NC-13] (introduced 9/23/2010) Cosponsors (5)
Committees: House Financial Services; Senate Small Business and Entrepreneurship
Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Received in the Senate and Read twice and referred to the Committee on Small Business and Entrepreneurship.

---

99. [111th] H.R.6219 : Small Business Jobs Amendments Act of 2010
Sponsor: Rep Frank, Barney [MA-4] (introduced 9/28/2010) **Cosponsors** (None)
Committees: House Financial Services
Latest Major Action: 9/28/2010 Referred to House committee. Status: Referred to the House Committee on Financial Services.

---

100. [111th] H.R.6231 : American Jobs Through Exports Act of 2010
Sponsor: Rep Giffords, Gabrielle [AZ-8] (introduced 9/28/2010) Cosponsors (1)
Committees: House Foreign Affairs
Latest Major Action: 9/28/2010 Referred to House committee. Status: Referred to the House Committee on Foreign Affairs.

Bill Summary & Status
Search Results

Text searched: job

NEXT PAGE | PREVIOUS PAGE | NEW SEARCH

Items **101** through **200** of **214**

101. [111th] H.R.6246 : Rural Energy Communities Development Act of 2010
Sponsor: Rep Pomeroy, Earl [ND] (introduced 9/29/2010) **Cosponsors** (None)
Committees: House Agriculture; House Financial Services
Latest Major Action: 11/16/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture.

102. [111th] H.R.6262 : Jobs Through Procurement Act
Sponsor: Rep Hare, Phil [IL-17] (introduced 9/29/2010) Cosponsors (6)
Committees: House Oversight and Government Reform; House Armed Services
Latest Major Action: 9/29/2010 Referred to House committee. Status: Referred to the Committee on Oversight and Government Reform, and in addition to the Committee on Armed Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

103. [111th] H.R.6299 : Jobs Through Environmental Safeguarding and Streamlining Act of 2010
Sponsor: Rep Richardson, Laura [CA-37] (introduced 9/29/2010) Cosponsors (1)
Committees: House Transportation and Infrastructure
Latest Major Action: 9/30/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Highways and Transit.

104. [111th] H.R.6323 : To exempt gain from the sale of certain C corporation stock from the capital gains rate increase resulting from the sunset of the Jobs and Growth Tax Relief Reconciliation Act of 2003.
Sponsor: Rep Crowley, Joseph [NY-7] (introduced 9/29/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 9/29/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

105. [111th] H.R.6330 : Preserving American Income on Dividends Act of 2010
Sponsor: Rep Garrett, Scott [NJ-5] (introduced 9/29/2010) Cosponsors (16)
Committees: House Ways and Means
Latest Major Action: 9/29/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

106. [111th] H.R.6339 : Veteran Medic Corpsmen Physician Assistant Demonstration Program Act of 2010
Sponsor: Rep Herseth Sandlin, Stephanie [SD] (introduced 9/29/2010) Cosponsors (1)
Committees: House Veterans' Affairs
Latest Major Action: 9/29/2010 Referred to House committee. Status: Referred to the House Committee on Veterans' Affairs.

---

107. [111th] H.R.6349 : To amend title 10, United States Code, to provide for greater transparency in the conversion of Department of Defense functions previously performed by contractors to performance by Department of Defense employees, and for other purposes.
Sponsor: Rep Lamborn, Doug [CO-5] (introduced 9/29/2010) **Cosponsors** (None)
Committees: House Armed Services
Latest Major Action: 10/20/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Military Personnel.

---

108. [111th] H.R.6358 : To amend the Internal Revenue Code of 1986 to provide for a zero percent capital gains rate for individuals and corporations.
Sponsor: Rep Mack, Connie [FL-14] (introduced 9/29/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 9/29/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

109. [111th] H.R.6367 : Restore American Jobs Act of 2010
Sponsor: Rep Moran, Jerry [KS-1] (introduced 9/29/2010) **Cosponsors** (None)
Committees: House Ways and Means; House Energy and Commerce; House Education and Labor; House Judiciary; House Administration; House Rules; House Natural Resources; House Appropriations; House Financial Services; House Transportation and Infrastructure
Latest Major Action: 11/18/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Health, Employment, Labor, and Pensions.

---

110. [111th] H.R.6395 : To amend the Alaska Natural Gas Pipeline Act with respect to certain requirements for construction job training program grants.
Sponsor: Rep Young, Don [AK] (introduced 9/29/2010) **Cosponsors** (None)
Committees: House Transportation and Infrastructure
Latest Major Action: 9/30/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Railroads, Pipelines, and Hazardous Materials.

---

111. [111th] H.R.6415 : Tax Relief Certainty Act
Sponsor: Rep Pence, Mike [IN-6] (introduced 11/17/2010) Cosponsors (26)
Committees: House Ways and Means
Latest Major Action: 11/17/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

112. [111th] H.R.6430 : Post-9/11 Veterans Educational Assistance Improvement Act of 2010
Sponsor: Rep Minnick, Walter [ID-1] (introduced 11/18/2010) **Cosponsors** (None)
Committees: House Veterans' Affairs
Latest Major Action: 11/18/2010 Referred to House committee. Status: Referred to the House Committee on Veterans' Affairs.

113. **[111th]** H.R.6462 : Healthy Food Financing Initiative
Sponsor: Rep Schwartz, Allyson Y. [PA-13] (introduced 11/30/2010) Cosponsors (6)
Committees: House Agriculture
Latest Major Action: 11/30/2010 Referred to House committee. Status: Referred to the House Committee on Agriculture.

---

114. **[111th]** H.R.6467 : Middle Class Tax Relief Act of 2010
Sponsor: Rep Levin, Sander M. [MI-12] (introduced 12/1/2010) **Cosponsors** (None)
Committees: House Ways and Means; House Budget
Latest Major Action: 12/1/2010 Referred to House committee. Status: Referred to the Committee on Ways and Means, and in addition to the Committee on the Budget, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

115. **[111th]** H.R.6495 : Robert C. Byrd Mine Safety Protection Act of 2010
Sponsor: Rep Miller, George [CA-7] (introduced 12/3/2010) Cosponsors (1)
Committees: House Education and Labor
Latest Major Action: 12/8/2010 Failed of passage/not agreed to in House. Status: On motion to suspend the rules and pass the bill, as amended Failed by the Yeas and Nays: (2/3 required): 214 - 193 (Roll no. 616).

---

116. **[111th]** H.R.6514 : Protecting Jobs in Your State Act of 2010
Sponsor: Rep Latta, Robert E. [OH-5] (introduced 12/9/2010) Cosponsors (1)
Committees: House Oversight and Government Reform; House Transportation and Infrastructure; House Financial Services
Latest Major Action: 12/9/2010 Referred to House committee. Status: Referred to the Committee on Oversight and Government Reform, and in addition to the Committees on Transportation and Infrastructure, and Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

---

117. **[111th]** H.R.6522 : End Tax Uncertainty Act of 2010
Sponsor: Rep Bachmann, Michele [MN-6] (introduced 12/15/2010) Cosponsors (9)
Committees: House Ways and Means
Latest Major Action: 12/15/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

118. **[111th]** H.R.6523 : Ike Skelton National Defense Authorization Act for Fiscal Year 2011
Sponsor: Rep Skelton, Ike [MO-4] (introduced 12/15/2010) **Cosponsors** (None)
Committees: House Armed Services; House Budget
Latest Major Action: Became Public Law No: 111-383 [**GPO:** Text, PDF]
Note: See the Committee Print of the House Armed Services Committee for additional details of the agreed to version of the bill.

---

119. **[111th]** H.R.6538 : Permanent Tax Relief Act of 2010
Sponsor: Rep Mack, Connie [FL-14] (introduced 12/16/2010) **Cosponsors** (None)
Committees: House Ways and Means
Latest Major Action: 12/16/2010 Referred to House committee. Status: Referred to the

House Committee on Ways and Means.

---

120. [111th] H.CON.RES.328 : Expressing the sense of the Congress regarding the successful and substantial contributions of the amendments to the patent and trademark laws that were initially enacted in 1980 by Public Law 96-517 (commonly referred to as the "Bayh-Dole Act") on the occasion of the 30th anniversary of its enactment.
Sponsor: Rep Conyers, John, Jr. [MI-14] (introduced 11/15/2010) Cosponsors (16)
Committees: House Judiciary; Senate Judiciary
Latest Major Action: 11/17/2010 Referred to Senate committee. Status: Received in the Senate and referred to the Committee on the Judiciary.

---

121. [111th] H.RES.1179 : Expressing the sense of the House of Representatives that biotechnology firms meeting small business standards are critical to the United States, its people and its economy because they create new medicines, services, and jobs and meet unmet needs related to populations and patients with infectious and chronic diseases, including those of medically underserved populations.
Sponsor: Rep Davis, Danny K. [IL-7] (introduced 3/12/2010) Cosponsors (1)
Committees: House Energy and Commerce
Latest Major Action: 3/12/2010 Referred to House committee. Status: Referred to the House Committee on Energy and Commerce.

---

122. [111th] H.RES.1204 : Providing for consideration of the bill (H.R. 4899) making emergency supplemental appropriations for disaster relief and summer jobs for the fiscal year ending September 30, 2010, and for other purposes.
Sponsor: Rep Perlmutter, Ed [CO-7] (introduced 3/22/2010) **Cosponsors** (None)
Committees: House Rules
House Reports: 11-454
Latest Major Action: 3/24/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by the Yeas and Nays: 233 - 191 (Roll no. 179).

---

123. [111th] H.RES.1205 : Providing for consideration of the bill (H.R. 4849) to amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, extend the Build America Bonds program, provide other infrastructure job creation tax incentives, and for other purposes.
Sponsor: Rep Cardoza, Dennis A. [CA-18] (introduced 3/22/2010) **Cosponsors** (None)
Committees: House Rules
House Reports: 11-455
Latest Major Action: 3/23/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by the Yeas and Nays: 233 - 187 (Roll no. 173).

---

124. [111th] H.RES.1317 : Expressing the sense of the House of Representatives that the value-added tax in addition to existing Federal taxes is a massive tax increase that will result in hardships for United States families and job-creating small business and will stunt economic recovery.
Sponsor: Rep Lance, Leonard [NJ-7] (introduced 4/29/2010) Cosponsors (22)
Committees: House Ways and Means
Latest Major Action: 4/29/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

125. [111th] H.RES.1380 : Applauding the State of Arizona for asserting its 10th amendment rights, protecting its citizens, and safeguarding its jobs, and calling upon the Administration to act immediately to enforce our Nation's immigration laws.
Sponsor: Rep Barrett, J. Gresham [SC-3] (introduced 5/20/2010) **Cosponsors** (None)
Committees: House Judiciary
Latest Major Action: 7/26/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law.

---

126. [111th] H.RES.1386 : Amending the Rules of the House of Representatives to prohibit Members from negotiating for a job involving lobbying activities.
Sponsor: Rep Foster, Bill [IL-14] (introduced 5/24/2010) Cosponsors (1)
Committees: House Rules
Latest Major Action: 5/24/2010 Referred to House committee. Status: Referred to the House Committee on Rules.

---

127. [111th] H.RES.1396 : Expressing the sense of the House of Representatives regarding the importance of increasing the funding of Job Corps, AmeriCorps, and the Peace Corps.
Sponsor: Rep McDermott, Jim [WA-7] (introduced 5/25/2010) Cosponsors (8)
Committees: House Education and Labor; House Foreign Affairs
Latest Major Action: 6/29/2010 Referred to House subcommittee. Status: Referred to the Subcommittee on Healthy Families and Communities.

---

128. [111th] H.RES.1436 : Providing for consideration of the bill (H.R. 5486) to amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, and for other purposes; and providing for consideration of the bill (H.R. 5297) to create the Small Business Lending Fund Program to direct the Secretary of the Treasury to make capital investments in eligible institutions in order to increase the availability of credit for small businesses, and for other purposes.
Sponsor: Rep Pingree, Chellie [ME-1] (introduced 6/14/2010) **Cosponsors** (None)
Committees: House Rules
House Reports: 11-506
Latest Major Action: 6/15/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by the Yeas and Nays: 228 - 186 (Roll no. 359).
Latest Action: 6/15/2010 Motion to reconsider laid on the table Agreed to without objection.

---

129. [111th] H.RES.1487 : Waiving a requirement of clause 6(a) of rule XIII with respect to consideration of certain resolutions reported from the Committee on Rules, and for other purposes.
Sponsor: Rep McGovern, James P. [MA-3] (introduced 6/29/2010) **Cosponsors** (None)
Committees: House Rules
House Reports: 11-516
Latest Major Action: 6/30/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by recorded vote: 237 - 189 (Roll no. 407).
Latest Action: 6/30/2010 Motion to reconsider laid on the table Agreed to without objection.

---

130. [111th] H.RES.1500 : Providing for consideration of the Senate amendments to the bill (H.R. 4899) making emergency supplemental appropriations for disaster relief and summer jobs for the fiscal year ending September 30, 2010, and for other purposes.
Sponsor: Rep McGovern, James P. [MA-3] (introduced 7/1/2010) **Cosponsors** (None)
Committees: House Rules

House Reports: 11-522
Latest Major Action: 7/1/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by the Yeas and Nays: 215 - 210 (Roll no. 428).
Latest Action: 7/1/2010 Motion to reconsider laid on the table Agreed to without objection.

---

131. [111th] H.RES.1562 : Recognizing the importance of trade to job creation and the United States economy and calling for the immediate implementation of the United States-Colombia Trade Promotion Agreement, United States-Panama Free Trade Agreement, and United States-Korea Free Trade Agreement.
Sponsor: Rep Minnick, Walter [ID-1] *(introduced 7/27/2010)* Cosponsors (7)
Committees: House Ways and Means
Latest Major Action: 7/27/2010 Referred to House committee. Status: Referred to the House Committee on Ways and Means.

---

132. [111th] H.RES.1568 : Providing for consideration of the bill (H.R. 5893) to amend the Internal Revenue Code of 1986 to create jobs through increased investment in infrastructure, to eliminate loopholes which encourage companies to move operations offshore, and for other purposes.
Sponsor: Rep Hastings, Alcee L. [FL-23] (introduced 7/28/2010) **Cosponsors** (None)
Committees: House Rules
House Reports: 11-577
Latest Major Action: 7/29/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by the Yeas and Nays: 233 - 182 (Roll no. 486).
Latest Action: 7/29/2010 Motion to reconsider laid on the table Agreed to without objection.

---

133. [111th] H.RES.1598 : Expressing support for the designation of the month of October as National Work and Family Month.
Sponsor: Rep McCarthy, Carolyn [NY-4] (introduced 7/30/2010) Cosponsors (10)
Committees: House Education and Labor
Latest Major Action: 12/2/2010 Passed/agreed to in House. Status: On motion to suspend the rules and agree to the resolution Agreed to by recorded vote (2/3 required): 412 - 0 (Roll no. 599).
Latest Action: 12/2/2010 Motion to reconsider laid on the table Agreed to without objection.

---

134. [111th] H.RES.1640 : Providing for consideration of the Senate amendment to the bill (H.R. 5297) to create the Small Business Lending Fund Program to direct the Secretary of the Treasury to make capital investments in eligible institutions in order to increase the availability of credit for small businesses, to amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, and for other purposes.
Sponsor: Rep Pingree, Chellie [ME-1] (introduced 9/22/2010) **Cosponsors** (None)
Committees: House Rules
House Reports: 11-621
Latest Major Action: 9/23/2010 Passed/agreed to in House. Status: On agreeing to the resolution Agreed to by the Yeas and Nays: 226 - 186 (Roll no. 536).
Latest Action: 9/23/2010 Motion to reconsider laid on the table Agreed to without objection.

---

135. [111th] H.RES.1649 : Amending the Rules of the House of Representatives to establish the Committee on Regulatory Review and American Jobs.
Sponsor: Rep Posey, Bill [FL-15] (introduced 9/22/2010) **Cosponsors** (None)
Committees: House Rules

Latest Major Action: 9/22/2010 Referred to House committee. Status: Referred to the House Committee on Rules.

---

136. [111th] H.AMDT.555 to H.R.4061 Amendment requires the President's report to Congress on the cybersecurity needs of the Federal Government to examine the current security clearance and job suitability requirements that may serve as a deterrent to hiring an adequately trained cyberworkforce.
Sponsor: Rep Sanchez, Loretta [CA-47] (introduced 2/3/2010) **Cosponsors** (None)
Latest Major Action: 2/3/2010 House amendment agreed to. Status: On agreeing to the Sanchez, Loretta amendment (A011) Agreed to by voice vote.

---

137. [111th] H.AMDT.656 to H.R.5136 Amendment ensures that the spouse, children and parents of a deployed or deploying member of the Armed Forces, who are not covered under the Family Medical Leave Act, have the ability to take at least two weeks of unpaid leave from their job in order to address issues that arise over the course of a deployment cycle.
Sponsor: Rep Smith, Adam [WA-9] (introduced 5/27/2010) **Cosponsors** (None)
Latest Major Action: 5/27/2010 House amendment agreed to. Status: On agreeing to the Smith (WA) amendment (A003) Agreed to by voice vote.

---

138. [111th] S.2952 : Strengthening Our Economy Through Employment and Development Act
Sponsor: Sen Franken, Al [MN] (introduced 1/26/2010) **Cosponsors** (None)
Committees: Senate Banking, Housing, and Urban Affairs
Latest Major Action: 1/26/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Banking, Housing, and Urban Affairs.

---

139. [111th] S.2967 : Boosting Entrepreneurship and New Jobs Act
Sponsor: Sen Cardin, Benjamin L. [MD] (introduced 1/28/2010) **Cosponsors** (None)
Committees: Senate Finance
Latest Major Action: 1/28/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

140. [111th] S.2973 : Small Business Job Creation Tax Act of 2010
Sponsor: Sen Casey, Robert P., Jr. [PA] (introduced 2/1/2010) Cosponsors (3)
Committees: Senate Finance
Latest Major Action: 2/1/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

141. [111th] S.2981 : Reevaluate and Redirect the Stimulus Act of 2010
Sponsor: Sen Snowe, Olympia J. [ME] (introduced 2/2/2010) Cosponsors (1)
Committees: Senate Appropriations
Latest Major Action: 2/2/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Appropriations.

---

142. [111th] S.3001 : America Recruits Act of 2009
Sponsor: Sen Warner, Mark R. [VA] (introduced 2/4/2010) **Cosponsors** (None)
Committees: Senate Environment and Public Works
Latest Major Action: 2/4/2010 Referred to Senate committee. Status: Read twice and

1404436007 6 7

referred to the Committee on Environment and Public Works.

---

143. [111th] S.3014 : American Job Creation and Investment Act
Sponsor: Sen Stabenow, Debbie [MI] (introduced 2/22/2010) Cosponsors (5)
Committees: Senate Finance
Latest Major Action: 2/22/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

144. [111th] S.3024 : Job Impact Analysis Act of 2010
Sponsor: Sen Snowe, Olympia J. [ME] (introduced 2/23/2010) Cosponsors (1)
Committees: Senate Homeland Security and Governmental Affairs
Latest Major Action: 2/23/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Homeland Security and Governmental Affairs.

---

145. [111th] S.3029 : StartUp Visa Act of 2010
Sponsor: Sen Kerry, John F. [MA] (introduced 2/24/2010) Cosponsors (2)
Committees: Senate Judiciary
Latest Major Action: 2/24/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on the Judiciary.

---

146. [111th] S.3033 : Protecting Employees and Retirees in Business Bankruptcies Act of 2010
Sponsor: Sen Durbin, Richard [IL] (introduced 2/24/2010) Cosponsors (5)
Committees: Senate Judiciary
Latest Major Action: 2/24/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on the Judiciary.

---

147. [111th] S.3069 : American Renewable Energy Jobs Act
Sponsor: Sen Schumer, Charles E. [NY] (introduced 3/3/2010) Cosponsors (5)
Committees: Senate Banking, Housing, and Urban Affairs
Latest Major Action: 3/3/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Banking, Housing, and Urban Affairs.

---

148. [111th] S.3079 : Building Star Energy Efficiency Act of 2010
Sponsor: Sen Merkley, Jeff [OR] (introduced 3/4/2010) Cosponsors (13)
Committees: Senate Energy and Natural Resources
Latest Major Action: 3/11/2010 Senate committee/subcommittee actions. Status: Committee on Energy and Natural Resources. Hearings held.

---

149. [111th] S.3084 : Export Promotion Act of 2010
Sponsor: Sen Klobuchar, Amy [MN] (introduced 3/5/2010) Cosponsors (7)
Committees: Senate Commerce, Science, and Transportation
Senate Reports: 11-289
Latest Major Action: 9/13/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 560.

---

150. [111th] S.3103 : Small Business Job Creation Act of 2010

Sponsor: Sen Snowe, Olympia J. [ME] (introduced 3/10/2010) **Cosponsors** (None)
Committees: Senate Finance
Latest Major Action: 3/10/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

151. [111th] S.3157 : Create Jobs and Save Benefits Act of 2010
Sponsor: Sen Casey, Robert P., Jr. [PA] (introduced 3/23/2010) Cosponsors (5)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 3/23/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

152. [111th] S.3206 : Keep Our Educators Working Act of 2010
Sponsor: Sen Harkin, Tom [IA] (introduced 4/14/2010) Cosponsors (29)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 4/14/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

153. [111th] S.3224 : Radiation Exposure Compensation Act Amendments of 2010
Sponsor: Sen Udall, Tom [NM] (introduced 4/19/2010) Cosponsors (5)
Committees: Senate Judiciary
Latest Major Action: 4/19/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on the Judiciary.

---

154. [111th] S.3228 : Small Business Innovation to Job Creation Act of 2010
Sponsor: Sen Schumer, Charles E. [NY] (introduced 4/20/2010) **Cosponsors** (None)
Committees: Senate Small Business and Entrepreneurship
Latest Major Action: 4/20/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Small Business and Entrepreneurship.

---

155. [111th] S.3231 : GREEN Jobs Act of 2010
Sponsor: Sen Grassley, Chuck [IA] (introduced 4/20/2010) Cosponsors (12)
Committees: Senate Finance
Latest Major Action: 4/20/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

156. [111th] S.3234 : Veteran Employment Assistance Act of 2010
Sponsor: Sen Murray, Patty [WA] (introduced 4/20/2010) Cosponsors (20)
Committees: Senate Veterans' Affairs
Senate Reports: 11-285
Latest Major Action: 9/2/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 556.

---

157. [111th] S.3272 : Close the Revolving Door Act of 2010
Sponsor: Sen Bennet, Michael F. [CO] (introduced 4/28/2010) Cosponsors (1)
Committees: Senate Homeland Security and Governmental Affairs
Latest Major Action: 4/28/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Homeland Security and Governmental Affairs.

---

158. [111th] S.3305 : Big Oil Bailout Prevention Unlimited Liability Act of 2010
Sponsor: Sen Menendez, Robert [NJ] (introduced 5/4/2010) Cosponsors (23)
Committees: Senate Environment and Public Works
Senate Reports: 11-249
Latest Major Action: 8/5/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 518.

---

159. [111th] S.3326 : Job Creation and Affordable Housing Act of 2010
Sponsor: Sen Cantwell, Maria [WA] (introduced 5/6/2010) Cosponsors (10)
Committees: Senate Finance
Latest Major Action: 5/6/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

160. [111th] S.3331 : Native American Economic Advisory Council Act of 2010
Sponsor: Sen Inouye, Daniel K. [HI] (introduced 5/7/2010) Cosponsors (2)
Committees: Senate Indian Affairs
Latest Major Action: 5/7/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Indian Affairs.

---

161. [111th] S.3340 : NIST Grants for Energy Efficiency, New Job Opportunities, and Business Solutions Act of 2010
Sponsor: Sen Udall, Tom [NM] (introduced 5/11/2010) **Cosponsors** (None)
Committees: Senate Commerce, Science, and Transportation
Latest Major Action: 5/11/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Commerce, Science, and Transportation.

---

162. [111th] S.3379 : Pollution and Costs Reduction Act
Sponsor: Sen Boxer, Barbara [CA] (introduced 5/17/2010) **Cosponsors** (None)
Committees: Senate Environment and Public Works
Latest Major Action: 5/17/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Environment and Public Works.

---

163. [111th] S.3385 : American Energy and Western Jobs Act
Sponsor: Sen Bennett, Robert F. [UT] (introduced 5/19/2010) Cosponsors (3)
Committees: Senate Energy and Natural Resources
Latest Major Action: 5/19/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Energy and Natural Resources.

---

164. [111th] S.3396 : Supply Star Act of 2010
Sponsor: Sen Bingaman, Jeff [NM] (introduced 5/24/2010) Cosponsors (4)
Committees: Senate Energy and Natural Resources
Senate Reports: 11-319
Latest Major Action: 9/27/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 605.

---

165. [111th] S.3447 : Post-9/11 Veterans Educational Assistance Improvements Act of 2010
Sponsor: Sen Akaka, Daniel K. [HI] (introduced 5/27/2010) Cosponsors (35)

Committees: Senate Veterans' Affairs; House Veterans' Affairs; House Armed Services; House Budget
Senate Reports: 11-346
Latest Major Action: Became Public Law No: 11t-377 **[GPO:** Text, PDF]

---

166. [111th] S.3459 : On-the-Job Training Act of 2010
Sponsor: Sen Shaheen, Jeanne [NH] (introduced 6/7/2010) Cosponsors (1)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 6/7/2010 Referred to Senate committee. Status: Read twice and referred to thc Committee on Health, Education, Labor, and Pensions.

---

167. [111th] S.3471 : Native American Employment Act of 2010
Sponsor: Sen Dorgan, Byron L. [ND] (introduced 6/9/2010) Cosponsors (3)
Committees: Senate Indian Affairs
Latest Major Action: 6/9/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Indian Affairs.

---

168. [111th] S.3500 : Local Jobs for America Act
Sponsor: Sen Brown, Sherrod [OH] (introduced 6/16/2010) Cosponsors (3)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 6/16/2010 Referred to Seoate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

169. [111th] S.3501 : American Job Protection Act
Sponsor: Sen Hatch, Orrin G. [UT] (introduced 6/17/2010) Cosponsors (14)
Committees: Senate Finance
Latest Major Action: 6/17/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

170. [111th] S.3513 : Bonus Depreciation Extension to Create Jobs Act
Sponsor: Sen Baucus, Max [MT] (introduced 6/21/2010) Cosponsors (5)
Committees: Senate Finance
Latest Major Action: 6/21/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

171. [111th] S.3517 : Claims Processing Improvement Act of 2010
Sponsor: Sen Akaka, Daniel K. [HI] (introdueed 6/22/2010) Cosponsors (4)
Committees: Senate Veterans' Affairs
Senate Reports: 11-354
Latest Major Action: 11/29/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 654.

---

172. [111th] S.3528 : Coastal Jobs Creation Act of 2010
Sponsor: Sen Snowe, Olympia J. [ME] (introduced 6/24/2010) Cosponsors (11)
Committees: Senate Commerce, Science, and Transportation
Latest Major Action: 6/24/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Commerce, Science, and Transportation.

---

173. [111th] S.3529 : AMERICA Works Act
Sponsor: Sen Hagan, Kay [NC] (introduced 6/24/2010) **Cosponsors** (None)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 6/24/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

174. [111th] S.3535 : Next Generation Energy Security Act of 2010
Sponsor: Sen Burr, Richard [NC] (introduced 6/24/2010) Cosponsors (1)
Committees: Senate Finance
Latest Major Action: 6/24/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

175. [111th] S.3545 : Gulf of Mexico Economic Recovery and Job Impact Analysis Act of 2010
Sponsor: Sen Landrieu, Mary L. [LA] (introduced 6/29/2010) **Cosponsors** (None)
Committees: Senate Small Business and Entrepreneurship
Latest Major Action: 6/29/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Small Business and Entrepreneurship.

---

176. [111th] S.3570 : Hydropower Improvement Act of 2010
Sponsor: Sen Murkowski, Lisa [AK] (introduced 7/13/2010) Cosponsors (5)
Committees: Senate Energy and Natural Resources
Latest Major Action: 7/13/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Energy and Natural Resources.

---

177. [111th] S.3582 : Military Spouse Job Continuity Act of 2010
Sponsor: Sen Casey, Robert P., Jr. [PA] (introduced 7/14/2010) Cosponsors (6)
Committees: Senate Finance
Latest Major Action: 7/14/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

178. [111th] S.3605 : America COMPETES Reauthorization Act of 2010
Sponsor: Sen Rockefeller, John D., IV [WV] (introduced 7/15/2010) Cosponsors (8)
Committees: Senate Commerce, Science, and Transportation
Senate Reports: 11-363
Latest Major Action: 12/10/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 687.

---

179. [111th] S.3606 : Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2011
Sponsor: Sen Kohl, Herb [WI] (introduced 7/15/2010) **Cosponsors** (None)
Committees: Senate Appropriations
Senate Reports: 11-221
Latest Major Action: 7/15/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 464.

---

180. [111th] S.3608 : Fuel Cell Industrial Vehicle Jobs Act of 2010
Sponsor: Sen Schumer, Charles E. [NY] (introduced 7/19/2010) Cosponsors (1)

1404436 0772

Committees: Senate Finance
Latest Major Action: 7/19/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

181. [111th] S.3618 : Enabling the Nuclear Renaissance Act
Sponsor: Sen Voinovich, George V. [OH] (introduced 7/20/2010) **Cosponsors** (None)
Committees: Senate Finance
Latest Major Action: 7/20/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

182. [111th] S.3644 : Transportation, Housing and Urban Development, and Related Agencies Appropriations Act, 2011
Sponsor: Sen Murray, Patty [WA] (introduced 7/23/2010) **Cosponsors** (None)
Committees: Senate Appropriations
Senate Reports: 11-230
Latest Major Action: 7/23/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 482.

---

183. [111th] S.3662 : National Manufacturing Strategy Act of 2010
Sponsor: Sen Stabenow, Debbie [MI] (introduced 7/28/2010) **Cosponsors** (None)
Committees: Senate Commerce, Science, and Transportation
Latest Major Action: 7/28/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Commerce, Science, and Transportation.

---

184. [111th] S.3663 : Clean Energy Jobs and Oil Company Accountability Act of 2010
Sponsor: Sen Reid, Harry [NV] (introduced 7/28/2010) **Cosponsors** (None)
Latest Major Action: 7/29/2010 Read the second time. Placed on Senate Legislative Calendar under General Orders. Calendar No. 493.

---

185. [111th] S.3675 : Small Business Jobs Preservation Act of 2010
Sponsor: Sen Whitehouse, Sheldon [RI] (introduced 7/29/2010) **Cosponsors** (None)
Committees: Senate Judiciary
Latest Major Action: 7/29/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on the Judiciary.

---

186. [111th] S.3686 : Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 2011
Sponsor: Sen Harkin, Tom [IA] (introduced 8/2/2010) **Cosponsors** (None)
Committees: Senate Appropriations
Senate Reports: 11-243
Latest Major Action: 8/2/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 504.

---

187. [111th] S.3688 : International Professional Exchange Act of 2010
Sponsor: Sen Kerry, John F. [MA] (introduced 8/2/2010) **Cosponsors** (None)
Committees: Senate Foreign Relations
Senate Reports: 11-383
Latest Major Action: 12/22/2010 Placed on Senate Legislative Calendar under General

Orders. Calendar No. 727.

---

188. [111th] S.3712 : Economic Growth and Jobs Protection Act of 2010
Sponsor: Sen Cornyn, John [TX] (introduced 8/5/2010) Cosponsors (2)
Committees: Senate Finance
Latest Major Action: 8/5/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

189. [111th] S.3720 : Marcellus Shale On-the-Job Training Act of 2010
Sponsor: Sen Casey, Robert P., Jr. [PA] (introduced 8/5/2010) **Cosponsors** (None)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 8/5/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

190. [111th] S.3768 : A bill to eliminate certain provisions relating to Texas and the Education Jobs Fund.
Sponsor: Sen Hutchison, Kay Bailey [TX] (introduced 9/13/2010) Cosponsors (1)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 9/13/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

191. [111th] S.3772 : Paycheck Fairness Act
Sponsor: Sen Reid, Harry [NV] (introduced 9/13/2010) Cosponsors (33)
Latest Major Action: 11/17/2010 Senate floor actions. Status: Cloture on the motion to proceed to the bill not invoked in Senate by Yea-Nay Vote. 58 - 41. Record Vote Number: 249.

---

192. [111th] S.3773 : Tax Hike Prevention Act of 2010
Sponsor: Sen McConnell, Mitch [KY] (introduced 9/13/2010) Cosponsors (27)
Latest Major Action: 9/14/2010 Read the second time. Placed on Senate Legislative Calendar under General Orders. Calendar No. 562.

---

193. [111th] S.3785 : Commercial Space Jobs and Investment Act of 2010
Sponsor: Sen Nelson, Bill [FL] (introduced 9/15/2010) Cosponsors (1)
Committees: Senate Finance
Latest Major Action: 9/15/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

194. [111th] S.3787 : Upstate Works Act
Sponsor: Sen Gillibrand, Kirsten E. [NY] (introduced 9/15/2010) **Cosponsors** (None)
Committees: Senate Finance
Latest Major Action: 9/15/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

195. [111th] S.3793 : Job Creation and Tax Cuts Act of 2010
Sponsor: Sen Baucus, Max [MT] (introduced 9/16/2010) **Cosponsors** (None)
Latest Major Action: 9/20/2010 Read the second time. Placed on Senate Legislative Calendar

under General Orders. Calendar No. 572.

---

196. [111th] S.3816 : Creating American Jobs and Ending Offshoring Act
Sponsor: Sen Durbin, Richard [IL] (introduced 9/21/2010) Cosponsors (8)
Latest Major Action: 9/28/2010 Senate floor actions. Status: Cloture on the motion to proceed to the bill not invoked in Senate by Yea-Nay Vote. 53 - 45. Record Vote Number: 242.

---

197. [111th] S.3849 : Job Preservation for Parents in Poverty Act
Sponsor: Sen Kerry, John F. [MA] (introduced 9/28/2010) Cosponsors (14)
Committees: Senate Finance
Latest Major Action: 9/28/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

198. [111th] S.3887 : A bill to provide for a continuation and expansion of the Wounded Warrior Careers Demonstration program, and for other purposes.
Sponsor: Sen Bennet, Michael F. [CO] (introduced 9/29/2010) **Cosponsors** (None)
Committees: Senate Armed Services
Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Armed Services.

---

199. [111th] S.3912 : HARVEST Act of 2010
Sponsor: Sen Chambliss, Saxby [GA] (introduced 9/29/2010) **Cosponsors** (None)
Committees: Senate Judiciary
Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on the Judiciary.

---

200. [111th] S.3932 : CIR Act of 2010
Sponsor: Sen Menendez, Robert [NJ] (introduced 9/29/2010) Cosponsors (2)
Committees: Senate Judiciary
Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on the Judiciary.

Bill Summary & Status
Search Results

Text searched: job

NEXT PAGE | PREVIOUS PAGE | NEW SEARCH

Items **201** through **214** of **214**

201. [111th] S.3937 : Suburban Core Opportunity, Restoration, and Enhancement (SCORE) Act of 2010
Sponsor: Sen Gillibrand, Kirsten E. [NY] (introduced 9/29/2010) **Cosponsors** (None)
Committees: Senate Finance
Latest Major Action: 9/29/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

202. [111th] S.3975 : Tax Relief Certainty Act
Sponsor: Sen DeMint, Jim [SC] (introduced 11/18/2010) **Cosponsors** (None)
Latest Major Action: 11/19/2010 Read the second time. Placed on Senate Legislative Calendar under General Orders. Calendar No. 651.

---

203. [111th] S.3986 : A bill to amend the Department of Agriculture Reorganization Act of 1994 to establish in the Department of Agriculture a Healthy Food Financing Initiative.
Sponsor: Sen Gillibrand, Kirsten E. [NY] (introduced 11/30/2010) Cosponsors (9)
Committees: Senate Agriculture, Nutrition, and Forestry
Latest Major Action: 11/30/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Agriculture, Nutrition, and Forestry.

---

204. [111th] S.4009 : Fairness for Texas Schools Act of 2010
Sponsor: Sen Hutchison, Kay Bailey [TX] (introduced 12/4/2010) Cosponsors (1)
Committees: Senate Health, Education, Labor, and Pensions
Latest Major Action: 12/4/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Health, Education, Labor, and Pensions.

---

205. [111th] S.4018 : Life Sciences Jobs and Investment Act of 2010
Sponsor: Sen Casey, Robert P., Jr. [PA] (introduced 12/9/2010) **Cosponsors** (None)
Committees: Senate Finance
Latest Major Action: 12/9/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

---

206. [111th] S.4049 : Forest Jobs and Recreation Act of 2010
Sponsor: Sen Tester, Jon [MT] (introduced 12/18/2010) **Cosponsors** (None)
Committees: Senate Energy and Natural Resources

Latest Major Action: 12/18/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Energy and Natural Resources.

---

207. [111th] S.4059 : Choice Neighborhoods Initiative Act of 2010
Sponsor: Sen Menendez, Robert [NJ] (introduced 12/22/2010) **Cosponsors** (None)
Committees: Senate Banking, Housing, and Urban Affairs
Latest Major Action: 12/22/2010 Referred to Senate committee. Status: Read twice and referred to the Committee on Banking, Housing, and Urban Affairs.

---

208. [111th] S.CON.RES.60 : An original concurrent resolution setting forth the congressional budget for the United States Government for fiscal year 2011, revising the appropriate budgetary levels for fiscal year 2010, and setting forth the appropriate budgetary levels for fiscal years 2012 through 2015.
Sponsor: Sen Conrad, Kent [ND] (introduced 4/26/2010) **Cosponsors** (None)
Committees: Senate Budget
Latest Major Action: 4/26/2010 Placed on Senate Legislative Calendar under General Orders. Calendar No. 358.

---

209. [111th] S.RES.540 : A resolution honoring the entrepreneurial spirit of small businesses in the United States during "National Small Business Week", beginning May 23, 2010.
Sponsor: Sen Landrieu, Mary L. [LA] (introduced 5/26/2010) Cosponsors (13)
Latest Major Action: 5/26/2010 Passed/agreed to in Senate. Status: Submitted in the Senate, considered, and agreed to without amendment and with a preamble by Unanimous Consent.

---

210. [111th] S.RES.618 : A resolution designating October 2010 as "National Work and Family Month".
Sponsor: Sen Lincoln, Blanche L. [AR] (introduced 9/14/2010) Cosponsors (8)
Committees: Senate Judiciary
Latest Major Action: 9/27/2010 Passed/agreed to in Senate. Status: Resolution agreed to in Senate without amendment and with a preamble by Unanimous Consent.

---

211. [111th] S.AMDT.3365 to H.R.4213 To require the Comptroller General to report to Congress on the causes of job losses in New England and the Midwest over the past 20 years and to suggest possible remedies.
Sponsor: Sen Whitehouse, Sheldon [RI] (introduced 3/3/2010) Cosponsors (6)
Latest Major Action: 3/9/2010 Senate amendment agreed to. Status: Amendment SA 3365 as modified agreed to in Senate by Unanimous Consent.

---

212. [111th] S.AMDT.3382 to H.R.4213 To amend the Internal Revenue Code of 1986 to allow companies to utilize existing alternative minimum tax credits to create and maintain American jobs through new domestic investments, and for other purposes.
Sponsor: Sen Stabenow, Debbie [MI] (introduced 3/3/2010) Cosponsors (8)
Latest Major Action: 3/4/2010 Senate amendment agreed to. Status: Amendment SA 3382 agreed to in Senate by Voice Vote.

---

213. [111th] S.AMDT.3639 to H.R.4872 To ensure that no State experiences a net job loss

1404435607 77

as a result of the enactment of the SAFRA Act.
Sponsor: Sen Thune, John [SD] (introduced 3/24/2010) **Cosponsors** (None)
Latest Major Action: 3/24/2010 Motion to table amendment SA 3639 agreed to in Senate by Yea-Nay Vote. 55 - 43. Record Vote Number: 76.

---

214. [111th] S.AMDT.4179 to H.R.4899 To allow the Administrator of the Small Business Administration to create or save jobs by providing interest relief on certain outstanding disaster loans relating to damage caused by the 2005 Gulf Coast hurricanes or the 2008 Gulf Coast hurricanes.
Sponsor: Sen Landrieu, Mary L. [LA] (introduced 5/24/2010) Cosponsors (2)
Latest Major Action: 5/27/2010 Proposed amendment SA 4179 withdrawn in Senate.
