

**BMC Software**  
**First Quarter Fiscal 2009**  
**Conference Call**  
**Prepared Comments**

**Derrick Vializ:**

Good afternoon everyone,

I'm Derrick Vializ, vice president of Investor Relations, and I would like to thank you for joining us today. During our call, Bob Beauchamp, our CEO, will provide an overview of our first quarter performance; an update on our Business Service Management strategy and an update on our mainframe business. After that, Steve Solcher, our CFO, will provide additional financial and operational details. Bob will then provide an update on our expectations for fiscal 2009 before we open the call to questions.

The prepared comments were previously recorded. This call is being web cast and a complete record of the call, including Q and A, will be made and posted to our website. In addition to today's earnings press release, we have posted a presentation which we will refer to at various times during the call. Both of these documents are available on our investor relations website at [bmc.com/investors](http://bmc.com/investors).

Before we continue, I would like to remind you that statements in this discussion, including statements made during the question and answer

session, regarding BMC's future financial and operating results, the development of and demand for BMC's products, BMC's operating strategies, acquisitions, and other statements that are not statements of historical fact are considered forward looking statements.

These statements are subject to numerous important factors, risks, and uncertainties which could cause actual results to differ from the results implied by these or any other forward looking statements. Cautionary statements relative to these forward looking statements and BMC's operating results are described in today's Earnings Press Release and the financial presentation and in our Annual Report on Form 10-K. All of these documents are available on our website. These forward-looking statements are made as of today based on certain expectations, and we undertake no obligation to update these forward-looking statements.

I would also like to point out that the Company's use of non-GAAP financial measures is explained in today's earnings press release and a full reconciliation between non-GAAP measures and the corresponding GAAP measure is provided in the tables accompanying the press release and in our GAAP to non-GAAP reconciliations found on our website at [bmc.com/investors](http://bmc.com/investors).

At this time I will turn the call over to Bob.

**Robert Beauchamp:**

Thank you Derrick.

Good afternoon, everyone, and thank you for joining us on today's call.

I'm pleased to report that BMC continued the strong momentum we had last year and that we started off fiscal 2009 with an impressive first quarter.

Our strategy took an important step forward as we completed the acquisition of BladeLogic. The successful integration of BladeLogic enabled us to create the industry's new leader in IT Service Automation – which is the fastest growing part of Business Service Management.

One of the many benefits we gained with the addition of BladeLogic is their experienced leadership. Dev Ittycheria, President and CEO of BladeLogic, joined BMC as Senior Vice President for strategy and corporate development. John McMahon, formerly BladeLogic's Chief Operating Officer, joined as Senior Vice President leading our Enterprise Service Management worldwide sales and services organization. Luca Lazzaron was appointed Vice President and General Manager for EMEA. BladeLogic's focus and intensity is already delivering benefits to the combined organization.

Following the acquisition of BladeLogic, we completed our first public debt offering. This offering helped us optimize our capital structure, establish our

name in the fixed income market, and obtain investment grade ratings, a key positive for our customer base.

These two major events – the BladeLogic acquisition and our successful public debt offering – have helped to positively position BMC for our current and future opportunities.

So as you can see, we've had a busy start to our fiscal year. But at the same time, I think our financial results reflect that we kept our eye on the ball...we maintained our sales momentum, our sharp operational focus and our operating discipline.

Let me share with you some financial highlights for the quarter:

- Total revenue increased by 14 percent, with growth in all major geographies.
- We saw accelerated growth in total revenue for the fifth consecutive quarter.
- We saw significant year-over-year growth in our ESM license bookings, on both a total and organic basis. This contributed to the strong year-over-year growth in total license revenue of 19 percent.
- Our non-GAAP operating margin was 25 percent for the quarter, up from 23 percent in the year-ago period.

- Non-GAAP diluted EPS for the quarter was up 19 percent compared to the year-ago period.
- And we continued to repurchase shares. At quarter-end we had over \$1 billion in cash and investments.

Our continuing success - - in terms of increased bookings, revenue, non-GAAP operating margin and non-GAAP diluted EPS - - reflects the strategic decisions that we've made and continue to make as we deliver on our BSM strategy.

As Forrester Research noted in its recently published report titled - - "The Megavendors in IT Management Software":

"BMC continues to be *the* BSM reference. BMC's BSM success is not only based on internal technology or acquisitions; it is actually the convergence of strategic vision, technology buildup, and marketing and sales execution. While BMC may not be the absolute leader in every single category, the whole is far more than the sum of its parts. Putting strategy, technology, and execution together is what makes BMC the BSM leader."

The strong momentum we are building in BSM is also reflected in recent sales wins. During the quarter, we signed important new contracts with VMWare, the U.S. Air Force, Groupe Danone, Unisys and Affiliated Computer Services (ACS). We're happy to say that following a comprehensive, competitive process, VMWare, a leader in virtualization

technology, selected BladeLogic as their service automation standard. We are proud to report that RSA, another division of EMC Corporation, also selected BladeLogic as their standard last quarter. Our contract with the U.S. Air Force, which is the single largest public sector win our ESM business has ever attained, calls for a range of support for the Combat Information Transport System Program Office. Groupe Danone, a leading global food and waters company, fully implemented BMC's IT Service Management offering.

Channel partners continue to be an important part of BMC's sales mix. Unisys standardized its outsourcing services in Asia Pacific on our BSM platform. ACS also standardized on our solutions. As you saw in our announcement earlier this month EDS also standardized on the BMC Atrium Configuration Management Database (CMDB) in Asia Pacific. These decisions by global outsourcers and system integrators to standardize on our BSM technology are strong indications of the strength of our platform.

Clearly our strategy and our solutions are in high demand with customers and partners around the world in a broad range of industries. And while we're pleased with this success, we're not standing still. We see significant opportunity ahead to reinvent and improve how companies manage IT as they strive to run IT as a business. Customer acceptance of the value drivers for BSM is no longer restricted to early adopters. Today we see the vast majority of global enterprises embracing the core concepts of BSM yet the wave is just beginning to rise. The acquisition of ITM Software this quarter is another step forward in our strategy. ITM offers a unique integrated solution that provides customers with a single comprehensive view of all the

applications that an IT organization needs to run itself as a true business unit.

We have focused our BSM offerings around three disciplines: Service Support, Service Assurance and Service Automation. The first - - Service Support - - reduces complexity and makes customer support, change management, and asset management integrated and efficient. Second - - Service Assurance - - delivers automated and predictive technology across our customer's entire enterprise.

The third discipline is Service Automation. We think that there is extraordinary opportunity here. It's being driven by the increased complexity of IT environments...the sheer numbers of virtual and physical servers being deployed today, Service Oriented Architectures...new software platforms and applications...all combined makes IT management more time-consuming, more error-prone and ultimately more expensive. These new scaling issues make the old ways of management in some cases grossly insufficient. For example, on average it is three times more expensive to manage and provision a server than it is to buy one today. The promise of capital expenditure savings that new platforms such as virtualization bring, can be more than offset by the increased operating costs of managing those new virtual servers. To capture these savings enterprises increasingly recognize the need to adopt BSM service automation tools before the virtualized environments are placed into production.

Fundamentally, Service Automation is about three things. First, it's the ability to rapidly provision services and the entire underlying infrastructure

around it. Second, it's the ability to manage and control those services. And finally, it's the ability to enforce compliance, not only from a security and operational point of view, but also from a regulatory point of view.

As it addresses these challenges, Service Automation reduces IT downtime, increases the responsiveness of IT to the business, reduces risk and dramatically lowers cost while increasing staff productivity.

Even in the current macro economic environment, market demand for the automation of IT processes is strong. It provides significant opportunity for businesses to reign in IT management and administrative costs while still meeting the reliability and responsiveness requirements of the business.

Turning now to our MSM unit, our strategy here is successful and unwavering. We like this business and we are the leader in it. The mainframe market continues to be highly stable, in terms of demand and pricing. Customers are far more rational in their purchasing capacity than they were a few years ago. As a result, we're seeing solid growth with improved visibility.

New business activity during the quarter for our MSM unit further confirms that we are expanding our footprint within existing customers and that we're also continuing to win competitive replacements. For example, we added about a dozen new MSM customers during this quarter. We signed a major deal with AT&T Services that significantly strengthens our presence inside this enterprise. We also renewed and grew our relationship with The

Vanguard Group. And we are proud to say that ING Bank purchased a broad portfolio of MSM solutions from us last quarter.

Going forward, we expect that the mainframe software marketplace will be flat to slightly growing in the near term. We see a strengthening of the mainframe renewal cycle beginning in fiscal 2010. Our plan is to leverage the strength of our solutions and our experienced people to maintain and enhance our share. We expect that our industry leading research and development, sales and support teams will continue to create the most compelling product lines and value proposition in the mainframe software market. Our focus is on increasing our customers' run rate of spend, broadening our footprint in existing customers and winning competitive replacements while maintaining our high level of profitability and cash flow.

As we look out over the remainder of fiscal 2009, we are mindful of the impact that global economic conditions and the credit crunch may have on IT spending in general. There have recently been conflicting data points on the appetite of CIOs of large companies for IT spending over the course of the year. While we have not yet seen this materially impact BMC, even in the struggling financial services sector, we recognize no enterprise software services company is immune from economic cycles that impact its customers. For that reason, we have developed plans to address a weaker demand profile should we see that develop in the months ahead. But as for now, we continue to see strong demand for our products. One reason may be because our BSM solutions offer customers a substantial ROI with a relatively short payback period. We expect that the cost-savings and productivity improvements that our BSM solutions offer will resonate much

better than many other IT budget items in almost any type of IT spending environment.

Before I turn it over to Steve for a detailed financial review, I want to close by noting our key objectives for fiscal 2009:

- First, to accelerate the top-line growth of our ESM unit by maintaining a more focused approach in Service Support, Service Assurance, and Service Automation;
- Second, to enable our MSM unit to capitalize on the continued stabilization of the Mainframe market and optimize its profitability and cash flow;
- Third, to maintain the discipline in how we run our business in order to yield greater business process efficiencies to support long-term growth – with a watchful eye to changes in global IT spending patterns.

I'll talk more about our outlook for fiscal 2009 later on in the call. But first here's Steve.

**Steve Solcher:**

Thanks Bob.

Before I go into specifics on our financial results, I will briefly discuss the improvements we're making to our company's financial disclosures.

First, we're providing additional financial information regarding our two business segments – Enterprise Service Management (ESM) and Mainframe Service Management (MSM). This includes management's view of segment operating income and segment operating margin. Our sharp focus on these two separate business units has been a key driver of our growth and profitability.

Second, we will now provide ESM license bookings and revenue information consistent with our market opportunity. As we discussed at our Investor Day this past March, ESM is now divided into three disciplines – Service Support, Service Automation and Service Assurance. Beginning this quarter, we are providing ESM license bookings and license revenue for each of these disciplines. Slide 9 includes five quarters of historical results. We have also provided a brief description of each discipline on slide 8.

Finally, I would like to note that our quarterly results reflect the impact of the BladeLogic acquisition, which we closed in April. As Bob mentioned, BladeLogic had a very strong quarter as its license bookings doubled from a year ago.

With that, let me turn to our financial results.

### **Operating Income and EPS**

In the first quarter, non-GAAP operating income increased by 24 percent, from \$89 million to \$111 million. Non-GAAP operating margin increased from 23 percent in the year-ago quarter to 25 percent this quarter. We expect continued year-over-year improvement in our non-GAAP operating margin throughout fiscal 2009.

Please refer to slide 5 for our non-GAAP income statement which includes the segment profitability for our ESM and MSM business units.

Our improved profitability in the first quarter was driven by our ESM business. Non-GAAP operating income for our ESM business unit increased to \$18 million from essentially breakeven. ESM operating margin increased by 7 percentage points to 7 percent. We are pleased with the progress we are making in significantly improving the profitability of our ESM business, and we expect continued year-over-year improvements in our ESM non-GAAP operating margin throughout fiscal 2009.

Our MSM business is highly profitable and stable. Our MSM business unit's non-GAAP operating income increased by 4 percent to \$93 million and its non-GAAP operating margin remained essentially flat at 52 percent.

Non-GAAP net earnings for the first quarter were \$82 million, an increase of 11 percent over fiscal 2008. Non-GAAP diluted EPS for the period was 43

cents, up 19 percent compared to the year-ago period. This reflects a non-GAAP effective tax rate for the quarter of 31 percent.

These non-GAAP results reflect diluted shares outstanding in the first quarter of 194 million, versus 205 million in the year-ago period.

GAAP operating income in the first quarter of fiscal 2009 was \$13 million, compared with \$61 million in the year-ago quarter. GAAP net income and fully diluted EPS were \$1 million and 1 cent, compared to \$55 million and 27 cents in the first quarter of fiscal 2008. First quarter GAAP net income for fiscal 2009 was impacted by charges associated with the acquisition of BladeLogic, including a \$50 million in-process research and development write-down and incremental intangible asset amortization.

## **Bookings**

Turning now to bookings.

In the first quarter of 2009, total bookings of \$480 million were up 9 percent compared to the year-ago period.

Total bookings on a trailing 12 month basis were \$1.82 billion, up 4 percent compared with the year ago period. The weighted average contract length for total bookings on a trailing 12 month basis was 2.1 years, a 12 percent decline from 2.4 years in the year-ago period.

With the increase in bookings, and after normalizing for contract length, trailing twelve month annualized bookings for the first quarter increased 19 percent over the year ago period to \$870 million. Looking at the trend in annualized bookings growth on a trailing twelve month basis, this is now the tenth consecutive quarter of overall growth as well as the third consecutive quarter of double digit growth. Please refer to slide 7 in our presentation.

Now let me turn to the performance of each of our business units.

For our ESM business unit, license bookings are the best measure of performance. Total ESM license bookings were \$96 million in the first quarter, up 38 percent over the year-ago period. This increase reflects in part the addition of BladeLogic. On a pro forma basis, or if we had included BladeLogic's results in the year ago quarter, ESM license bookings growth would have been 22 percent.

Within ESM, license bookings for Service Support were \$52 million, up 36 percent. License bookings for Service Automation were \$24 million, compared to \$2 million a year ago. On a pro forma basis, Service Automation license bookings would have risen 113 percent. License bookings for Service Assurance were \$20 million, down 32 percent. While we know that Service Assurance had a tough compare versus the year ago quarter, we also know that the performance of this business needs to improve. For further information regarding license bookings by business segment, please refer to slide 9 in our presentation.

Turning to our Mainframe unit, we believe the MSM business unit is best evaluated on the basis of total and annualized bookings over the trailing twelve months.

In the first quarter, total MSM bookings on a trailing twelve month basis increased 1 percent to \$753 million with an average contract length of 2.8 years. In the year ago period, total MSM bookings were \$747 million with an average contract length of 3.1 years.

After normalizing for contract length, total annualized MSM bookings for the trailing 12 months were up 10 percent to \$264 million. We are pleased with the performance of this business unit but continue to point out the mainframe business is lumpy and as a result, bookings can vary from quarter to quarter.

## **Revenue**

Turning to revenue: total revenue for the quarter was \$438 million, a 14 percent increase compared to the first quarter of fiscal 2008.

License revenue in the first quarter was \$149 million, an increase of 19 percent compared to a year ago.

ESM license revenue was \$90 million, an increase of 35 percent. MSM license revenue increased by 1 percent to \$60 million.

During the quarter, the percentage of license bookings that was deferred was 49 percent, which was lower than the 58 percent in the year-ago period. One of the key drivers for the decline in the ratable rate was the lower amount of term based transactions that we signed during the quarter.

For the first quarter, maintenance revenue was \$254 million, up 8 percent compared to a year ago. ESM maintenance revenue was \$137 million, up 9 percent and MSM maintenance revenue was \$118 million, up 7 percent compared to the first quarter of fiscal 2008.

Professional services revenue, which is included in the ESM segment, increased by 43 percent to \$34 million.

From a geographic perspective, total revenue and license revenue grew in all major regions for the quarter. We saw particular strength outside of the U.S.

## **Operating Expenses**

Moving next to operating expenses:

Non-GAAP operating expenses were \$327 million, up about 10 percent from the year-ago period. This reflects the addition of BladeLogic and the negative impact from currency movements.

Looking at our business units, ESM non-GAAP operating expenses were \$242 million, compared to \$216 million in the year-ago quarter. MSM non-GAAP operating expenses were \$84 million compared to \$80 million.

Over the last few years, we have instilled in our business a strong operating and financial discipline. This has enabled us to control operating expenses and convert more of each incremental dollar of revenue into operating income. Continued fiscal discipline and business process efficiencies will be a driver of improved operating margin over the course of this year.

## **Balance Sheet**

Now turning to the balance sheet:

Total deferred license revenue at the end of the first quarter was \$554 million, which was flat on a sequential basis.

During the quarter, we deferred \$73 million of license revenue, or 49 percent of license bookings, and recognized \$74 million of deferred license revenue from the balance sheet.

Total deferred revenue increased by \$42 million sequentially to \$1.82 billion, a record balance.

Software development costs on the balance sheet were \$111 million, down 2 percent compared to the fourth quarter of 2008, as we capitalized \$13 million and amortized \$16 million during the quarter.

Cash and investments at June 30 totaled \$1.07 billion. Our net cash position was \$762 million.

During the quarter, we completed the acquisition of BladeLogic. We also completed our first public debt offering, which helps to optimize our capital structure.

For the quarter, cash flow from operations was \$151 million, which met our expectations.

During the quarter we remained committed to our existing share repurchase program, as we repurchased 2.6 million shares for an aggregate value of \$100 million.

With that, I'll turn the call back over to Bob for his concluding remarks.

**Bob Beauchamp:**

Thank you, Steve.

As you've heard, we're off to a very strong start. Our performance in the first quarter puts us on track to achieve the annual goals that we outlined for you for fiscal 2009.

To remind you, we expect non-GAAP earnings per share in the range of \$2.10 to \$2.20 per share with a seasonal pattern similar to prior years. Although our first quarter non-GAAP effective tax rate was 31 percent, we expect a full year non-GAAP effective tax rate of 30 percent.

Our non-GAAP EPS excludes an estimated 84 cents of special items including expenses related to the amortization of acquired technology and intangibles, in-process research and development associated with our acquisition of BladeLogic, stock-based compensation and restructuring activity.

The assumptions underlying this full year fiscal 2009 estimate include:

- Total bookings and total revenue growth in the low double digits
- A license bookings ratable rate slightly higher than last year
- A continued improvement in non-GAAP operating margin
- Dilution due to the BladeLogic acquisition, including the write down of deferred revenue and retention and integration costs and

- Other income that reflects the current interest rate environment.

We expect full year fiscal 2009 cash flow from operations to be between \$620 million and \$670 million, seasonally skewed to the second half of the fiscal year.

Each of our goals for fiscal 2009 represents a significant increase over 2008.

With that we will now turn the call over to questions.

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