

FINAL TRANSCRIPT

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LWSN - Q4 2007 Lawson Software, Inc. Earnings Conference Call

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PRESENTATION

Operator

Hello and welcome to the Lawson Software Q4 year-end fiscal year 2007 earnings call. At the request of Lawson Software, this conference is being recorded. (OPERATOR INSTRUCTIONS)

I would now like to turn the conference over to Ms. Barbara Doyle, Vice President Investor Relations. Ma'am, you may begin when ready.

Barbara Doyle - *Lawson Software, Inc. - VP IR*

Thank you, operator, and good afternoon to everyone on the call. Welcome to Lawson Software's fourth fiscal 2007 quarterly conference call. On today's call, we have Harry Debes, Lawson's President and CEO; Rob Schriesheim, Lawson's CFO and Stefan Schulz, Lawson's Global Controller. We will provide our comments regarding our Q4 results, full-year recap, future guidance and then we will open up the call to your questions as the operator will describe.

Let me remind you that you can reference our press release on our investor website. We're aware of an issue with Business Wire with the distribution, but you can access our press release at our website at www.lawson.com/investor. And on the right-hand side of the page, you will see a link for Quarterly Results and if you click on the Press Release link under the fourth quarter tab, our press release in pdf format is available for you. I also remind you that we have several supplemental spreadsheets posted that that may help to further aid your review of our results.

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Before we start, please let me review our Safe Harbor statement. This call will include forward-looking statements that contain risks and uncertainties. These forward-looking statements contain statements of intent, belief, or current expectations of Lawson Software and its management. Such forward-looking statements are not guarantees of future results, and involve risks and uncertainties that may cause actual results to differ materially from the potential results discussed.

The Company is not obligated to update forward-looking statements based on circumstances or events that occur in the future. Risks and uncertainties that may cause such differences include, but aren't limited to uncertainties in the Company's ability to realize synergies and revenue opportunities from the Intentia acquisition, uncertainties in the software industry, uncertainties as to when and whether the conditions for the recognition of deferred revenues will be satisfied, global military conflicts, terrorist attacks or any future events in response to these attacks, changes in the conditions in the Company's targeted industries, increased competition, and other risk factors listed in the Company's recently filed form 10-Q and 10-K filed with the SEC and available on our website.

With that, let me turn the call over to Harry Debes.

Harry Debes - Lawson Software, Inc. - President, CEO

Thank you, Barbara, and good afternoon, everyone. We'll follow our familiar format for this call. First, I'll provide some remarks regarding our business results, metrics and trends, and after that, Rob Schriesheim, our CFO, will review the quarter in more detail and will provide guidance for what we would expect from future results.

So to begin, let's review our fourth quarter. As announced, license revenue was up considerably, driven by much higher contracting activity and also better conversion rates. We've always had a strong finish and in this quarter I would attribute our success to the following factors. First, our sales team is now much larger. We've been growing the sales force all year, beginning with 154 AEs and ending Q4 with 202 AEs. It takes time for new salespeople to establish a pipeline and to move opportunities through the various stages, and in this quarter we saw our investment in sales resources pay some real dividends.

Second, our sales team is smarter. Not only are they smarter as they engage the competition, but they've learned how to manage the complexities of software revenue recognition rules. We've learned how to adapt our contracting practices so that a greater percentage of our contracted deals are being recognized in the quarter that we sign them. As an example, in our first quarter, we recognized only 60% of what we signed, while in our fourth quarter we recognized approximately 80% of what we signed.

Third, we sold \$13 million of Lawson System Foundation, a product for our S3 customers that we first introduced in March of 2006. This product provides customers with a comprehensive, service oriented architecture based production and integration platform. It's based on IBM middleware such as IBM WebSphere and it's optimized to work with Lawson's own technology.

Now whenever you introduce a new solution like this, it takes a while for customers to fully understand the features and benefits and then they will see the products in their budget and also in their IT project plans. Since its release, we've now sold 950 units of LSF to approximately 55% of our S3 customer base. It is attractively priced, provided the maximum benefit and it was easy to install. In short, we delivered real value and the results speak for themselves.

There's more opportunity for LSF with our remaining S3 customers and we expect to realize that over the next 18 months. Clearly, following that success, we've recently introduced a similar solution for our M3 customers and we expect that this solution will ship in significant quantities later this year.

Now, because LSF ships and installs so quickly, it did have a positive impact on our contracting to revenue conversion rates. And this explains the 80% conversion rate in Q4. We don't expect to recognize 80% of everything we sign in every quarter, even though we have smarter AEs. Rather, we expect our conversion rates to be in the 70% range for most of this year. But that's still a significant improvement over where we were.

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So to summarize, our fourth quarter license revenue was strong due to much higher contracting. And that was given by a larger and smarter sales force, as well as a wide customer acceptance of our LSF solutions.

So here are two metrics for Q4 license revenue. Total deals signed more than doubled over Q3 levels. We signed a total of 751 deals in Q4, including 450 LSF deals and 65 Business Intelligence deals. Because of the success LSF in Q4, 79% of our software business was with existing customers. This is unusually high and I expect that our normal percent of software sold to existing customer accounts will be about 60% and that means software sold to new accounts will be about 30% of total software sales.

The number of new customer deals signed in the quarter increased more than 65% from Q3, to 40 million accounts; 2 of those deals were greater than \$1 million and 78 were between \$500,000 and \$1 million.

A few highlights from our M3 solution set. The largest M3 deal of the quarter was Cardo, an international industrial group, who chose Lawson over SAP for our global implementation. We also sold M3 to Rip Curl, an Australian icon in the surfwear industry, where Lawson was chosen over SAP and over Microsoft. Other notable users of M3 wins included Yorkshire Blanket, Johannes Fog, Smithfield Beef and Metso Automation, where we beat SAP in all cases.

Turning to S3, our largest S3 deal was a win over Oracle at SUNY Downstate Medical Center. This is a Human Capital Management replacement of their existing PeopleSoft system. We also beat Oracle at Benchmark Holdings Group. And again, at Hudson Healthcare. Other notable new S3 wins over Oracle included American Safety Insurance, ClientLogic, Elsinore Valley Municipal Water District, the Archdiocese of Boston and Lacroix Aircraft.

As I've said for some time, we compete against SAP and Oracle in just about every single sales opportunity and we're pleased to report that the number of new business wins against these competitors is increasing. This proves that customers want alternatives to the higher-cost, more complex and less customer-friendly solutions offered by these competitors. At Lawson we offer the market a real choice, not only in terms of solutions, but also in terms of the customer experience, and that's really working for us.

So that summarizes our sales activity for the fourth quarter, an excellent result by any standard.

Now let me give you a few data points for the full year. In fiscal '07 we signed a total of 125 new name accounts in the US, up from 70 in 2006. We signed 14 deals that were greater than \$1 million. That was up 40%. We signed 30 deals between \$500,000 and \$1 million and that was an increase of 50% over last year. We signed 11 new M3 accounts in the Americas and that's just the beginning of FY '07 and that's primarily a new start for M3 in this market.

Our M3 Americas pipeline has now increased to \$90 million from \$10 million at the start of the year. And in the next year we expect to convert that into meaningful software signings.

Finally, before I leave the area of license sales, I'm pleased to report that not only our M3 Americas pipeline has grown, but our overall pipeline continues to grow, as it has in every quarter over the past year. And because of that solid pipeline, because of the increased number of salespeople and the continuing benefit from the deferral of license revenue from fiscal '07, we are confident that license contracting and more importantly, license revenue will continue to improve throughout the coming year.

Now let's talk about maintenance. Through all of fiscal 2007 we spoke about our initiative to have a single maintenance renewal date for each customer group. In Q3 I spoke about the success we had in establishing a January 1st renewal date for our international customers. Also for the domestic customers we chose a June 1st renewal date. And in Q4, we invoiced \$175 million for domestic maintenance renewal.

I'm pleased to report that we collected more than \$145 million and that's 80% of those renewals, by the 31st of May, 2007. And much of that remaining balance has subsequently been collected. As we said at the beginning of the year, the result of this

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initiative would be a shift in the dynamics of our cash flow such that Q3 and Q4 would be the strongest, but Q1 and Q2 would be somewhat weaker. We now see the full impact of changes on maintenance renewal to those two renewal dates.

And it wasn't simply about billing cycles, we also focused about increasing renewal rates. Overall, maintenance renewals for S3 increased from approximately 94% in Q406 to 95.5% during this last quarter. And M3 renewal rates are on an improving trend as well. It's not been as strong as S3 renewals, but our focus on delivering greater value to our M3 customers is having an impact and we're confident that M3 renewals will move closer to S3 levels over time.

So now we've received the bulk of the cash for 2007 renewals and this means that our maintenance revenue stream, which is about 38% of our business, will be even more predictable than in the past. And that makes our lives just a little bit easier.

As for maintenance margins, while we're making good progress, our objective at this stage is to have margins for this part of our business be up 85%. We're not quite there yet, but that's what our goal is for the next (inaudible).

Now let me turn to consulting services. In the fourth quarter, total consulting revenues increased 3% sequentially, driven by increased customer demand for work such as LSF implementation and as a result, we needed to supplement Lawson's resources with our partners in order to meet our customers' timelines. Unfortunately, we didn't manage margins on this particular third-party work as well as we should have and our services margins declined.

Another factor that contributed to lower margins included higher end of year incentive compensation costs as our consultants hit some utilization bonus targets. So service margins for Q4 were 11% and that's down from our Q3 margin of 17.7%. This decline was large and unexpected and it's totally unacceptable. We have unprecedented demand for Lawson services at this time and we should be able to achieve 20% or higher margins from this part of our business.

To rectify this situation, we've already begun to implement a number of initiatives designed to get services modules back to where they should be. Q1, however, is our weakest revenue quarter for the services business, because of vacations of both customers and employees, but we've already begun to make changes to make sure that we achieve our margin objectives and we should expect to see significant improvement in this metric in our Q2 results.

Now I'll talk a minute about something that we don't discuss enough, and that's our product strategy. One of the things that contributed to our momentum is the strategy that we articulated nine months ago. More importantly, unlike some of our competitors, we're not spending three years telling you about what kind of a wonderful product we might have at some time in the future. We tell you about our product plans and then we deliver those products the next quarter. It's a conscious decision to take some of the hype out of this industry.

So here are some product highlights that we've actually delivered this quarter. Before I begin, as you know, we have two major product lines; M3 and S3. M3 was the first complete ERP solution for the manufacturing, distribution and equipment rental business that was delivered as a completely rewritten Java solution. And that was nearly five years ago. None of our major competitors have the full Java solution on the market today. They're talking about it, but right now, it's all talk.

Meanwhile, in Q4 we released M3 version 7.1. This latest release not only has more than 200 enhancements, it also has a revolutionary new user interface, which takes end-user navigation and performance to new levels. Customer and market response to this new release has been overwhelmingly positive.

Turning to S3, the Lawson S3 Application Suite targets service industries. About 12 months ago we released version 9 along with the SOA-enabled LSF middleware solution, which has been so successful with new and existing clients. Since then we've released a number of add-on solutions and that's made S3 more competitive and that's something we've been able to sell back into our customer base.

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In the fourth quarter we released updates to our Business Intelligence solution and also to our Supply Chain solution. And by the way, our Business Intelligence solution works equally well with S3 and M3. We've now sold 34 BIs to the 13 different countries, to new and existing M3 customers. And with approximately 2,000 M3 clients, we still have lots of potential to this product into our installed base.

But it's not all about software. To give the optimum value to our clients, we compliment our software with a range of service offerings which makes our solutions attractive. In the last quarter we released two such new important offerings. The first was Lawson's Total Care Platinum. That's a managed hosting service designed to help customers get the most out of their Lawson implementation, while minimizing demands on their IP resources. Customers immediately began purchasing this solution.

And secondly, we released a number of Quick-Step services solutions. These are pre-configured industry-specific implementation templates that are designed to reduce implementation time by 30% to 40%. In Q4 we released Quick-Step to our platform maintenance for distribution and for healthcare. And this adds to the Quick-Step solutions we announced earlier in the year. We now have an inventory of 8 such pre-configured templates.

So to sum up, we have a sound product strategy which includes a set of proven industry specific software products and those are complimented by a number of service offerings. Our solutions are modern and they are available today. And we have a number of other exciting products in various stages of development, but we'll tell you about them when they're ready to be released.

So if I were to summarize, I'd say that Q4 capped off a year of significant transition for our company. We overcame a great deal of complexity in a merger of two companies who focus on different industries and different geographies. And you may remember that the former Intentia was not a profitable business at the time of the combination. In fact, we had cultural, legal and accounting differences. But the people in both companies believed in the potential that existed for us and together we created a new product strategy for our two enduring product lines and we tied them together with a common architecture and a common user experience and guided by this strategy, we delivered a number of new products to the market.

As you know, we grew our AE headcount by 30% during the year, and while we plan to continue to grow our sales headcount in fiscal '08, we will do so at a somewhat slower pace. Our primary focus now is to increase the productivity of our sales team and harvest our pipeline.

We also underwent two restructures and we created an offshore facility which requires significant investment, with very little return in FY '07 as we ramp-up this facility. We now expect that this facility will make a real contribution to our business in fiscal '08 and beyond.

But despite all of these and many other initiatives and distractions, we grew revenue and improved profitability sequentially in each quarter. We exceeded our original guidance of \$750 million in revenue for the year and we demonstrated a very healthy cash flow. Although we missed our original goal of achieving a 15% operating margin by the fourth quarter, the increasing margin we achieved in every quarter and the 10% achieved in Q4, reflects a business that is healthy and is showing steady improvement.

Now I'd like to turn the call over to Rob for a more detailed review of our results.

Rob Schriesheim - Lawson Software, Inc. - CFO

Thanks Harry. Before I begin, I'd like to remind you that we focus on non-GAAP measurements for these quarterly conference calls. We have a complete reconciliation of GAAP and non-GAAP measurements in our press release and on our website and I'd encourage you to review it. Also, I'll focus on sequential comparisons between Q3 '07 and Q4 '07, because this provides the best view of our business progress.

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Year-over-year comparisons in the fourth quarter continue to be impacted by the Intenia acquisition, as only five weeks of Intenia results were included in our Q4 results a year ago. Year-to-year analysis is provided in our press release and will also be covered in our 10-K for your review. We will return to a focus on year-to-year measurements beginning in our Q1 fiscal '08 report, when we will have apples-to-apples results unaffected by the merger.

I'll begin with a summary of our financials and key business metrics. Fourth quarter total revenues of \$214 million and \$0.08 EPS exceeded our original guidance of \$188 million to \$196 million and \$0.03 to \$0.05 respectively. We had stronger than expected results across all lines of business, with license revenues particularly strong at just under \$41 million.

As discussed, we sold approximately \$6 million more of Lawson Systems Foundation licenses in the quarter than anticipated when we gave our original guidance. This added about \$0.01 per share to our EPS. Q4 results were not solely due to strong LSF volumes, however. Excluding the more than anticipated LSF volumes, our license revenues exceeded our guidance by more than 30%, driven by high volume of buying transactions, stronger than expected fourth quarter seasonality and improved conversion rates. Taxes also benefited EPS in the quarter. The actual effective tax rate for the quarter was about 42% compared to the 51% used in our guidance. This favorably impacted EPS by \$0.01 from our preliminary results.

Overall, I'm pleased with Q4 results, even after adjusting for the LSF volumes and the lower tax rate, revenues exceeded our guidance by 9% and EPS would have been \$0.06 per share compared to our \$0.03 to \$0.05 forecast.

Now to discuss our financial results in some more detail, beginning with revenue. Non-GAAP revenue of \$214 million included \$1 million of maintenance and consulting revenue impact resulting from the purchase accounting. Total non-GAAP revenues increased 11% from Q3.

The mix of revenues by geography remain constant with 54% of total revenue generated in the Americas, 43% EMEA and 3% Asia Pac. As I've already discussed, license revenues increased to \$40.6 million in Q4, reflecting a 54% sequential improvement. License revenues increased to approximately 19% of total revenues from 14% in Q3.

The sequential increase in license revenues reflected a healthy increase in contracting in the quarter [and developed a] higher conversion rate. The contracting to revenue conversion rate averaged 60 to 65% for the first three quarters of the year. The contracting conversion rate exceeded 80% in Q4, driven by two things; the high LSF sales, which are generally 100% recognized in the quarter sold and a better conversion rate in EMEA due to a higher proportion of large deals done with existing customers requiring minimal services.

We recognized approximately \$6 million of previously deferred license revenues in the quarter, equal to the amount in Q3. So that did not create any sequential impact. For the full year we recognized \$18 million of deferred revenue. This was higher than we originally expected, reflecting a good pace of milestone completions on our contracts, which is also consistent with the strong performance in our consulting revenues and utilization rates.

Deferred license revenues at year-end increased to \$35.3 million. This is an increase of \$24 million from the \$11 million deferred license balance at the end of fiscal '06. As we have indicated during the year, we always expected higher license deferrals in fiscal '07 for M3 products and for S3 products as well, due to the nature of some S3 contracts we had in our pipeline. We would anticipate recognizing about 90% of this balance in fiscal '08 or about \$30 to \$32 million. This will appear as a year-over-year benefit to license revenues when compared with the \$18 million of revenues recognized from the balance sheet during fiscal '07.

As we discussed, license deferrals and roll-ins from the balance sheet will reach a state of dynamic equilibrium in mid fiscal '08. After that point, deferrals should not be a material impact either way.

Next, onto professional services revenue. Total revenues of \$95 million increased 3% from Q3, driven by improved billable utilization as well as increased third-party hours. We had more demand than we could fill with Lawson Consultants and heavily

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utilized third-party services in the quarter. This impacted cost and margin as well. While consulting revenue increased 3% from Q3, costs increased 11%. As a result, our consulting services gross margin was 11%. Our consulting services gross margin was 14% for the full year. An improvement in consulting margins continues to be a focus area in fiscal '08. Our goal continues to be 20% growth margin for consulting services, which is a key element to achieving operating margins in the mid teens.

As Harry indicated, our services management is taking an aggressive approach to addressing these issues and has already begun implementing detailed plans to improve the gross margin. Due to the significant Q1 seasonality, we would expect to see some positive impact from these actions in Q2.

Maintenance revenue continues to be steady and predictable. Q4 maintenance revenues of \$79 million increased 5% from Q3. As we've discussed in the past, while license fees are viewed as key metrics of business health, we also consider long predictable maintenance revenue and healthy renewal rates key metrics of the value that our customers place on our products and our support services.

On to cost and gross margin. Total Q4 cost of revenues were \$105 million, up 12% from Q3, consistent with the sequential increase in total revenue. [Variable] costs, including third-party costs, sales commission and incentive increased commensurate with strong sales in consulting services hours delivered. License and consulting margins decreased sequentially to 83% and 11% from 88% and 17% respectively, driven by sales compensation and third party costs.

Maintenance margin increased sequentially however, from 80% in Q3 to 82.5% in Q4, driven by strong collections and higher renewal rates. The increase in maintenance margins plus the higher percentage of license fees offset the higher Q4 variable sales and services costs, keeping gross margins flat sequentially at 51%.

Total Q4 non-GAAP expenses were \$193 million. Let me point out that this is not representative of a quarterly expense run rate and give you some additional insight. Departmental operating expenses of \$88 million increased 7% from Q3. As a percent of revenue, however, total operating expenses declined to 41% from 43% of revenue. Sales and marketing spending of 43.6 million increased 11% over Q3, driven by higher incentive compensation costs, triggered by year-end accelerators in the compensation plans, consistent with industry practices.

As a percent of revenue, sales and marketing remain flat at 20%. R&D spending increased from \$20 million in Q3 to \$22 million and stayed flat at 10% of revenue. G&A spending of \$22 million remained essentially flat from Q3, but declined to 10% from 12% of revenue.

Now onto operating income and margin. Non-GAAP operating income was \$21 million. Operating margin increased to nearly 10% from 8.7% in Q3. The benefit was driven by an 11% growth in revenues while total expenses increased approximately 9% sequentially. This represents good progress toward our operating margin goal. One of the things that the leadership team has exhibited during the last two years is a very rigorous focus on prudent expense management and quick collective actions when needed.

As previously discussed, we are focusing on services costs and margin. We continue to believe that we are on the right track for mid-teens operating margin goal in the year's time.

Net other income of \$4 million increased from \$1.4 million in Q3, driven by a 50% increase in interest income. Interest income increased primarily due to higher invested cash balances from the net proceeds of the convertible debt offering completed in April and the cash flow from the domestic annual maintenance billing.

A quick word on taxes. Our effective tax position for fiscal '07 was 47%, down from our 51% estimate achieved last quarter. The lower tax rate was driven by improvement in the mix of US and non-US profitability. Taxes were also favorably impacted by the completion of some key elements of our global restructuring plan in Q4. As a result, our Q4 non-GAAP tax provision was \$10.5

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million or a 42% effective rate. As I mentioned, this lower tax rate benefited our non-GAAP EPS by about \$0.01 in the quarter compared to our guidance assumptions of a 51% effective rate.

A few words on our share repurchase activity. The company repurchased 5.5 million shares of common stock in the fourth quarter for \$49 million at an average price of \$8.89 per share. In fiscal '07 the company repurchased a total of 6.4 million shares or approximately 3% of the total shares outstanding for about \$55 million at an average purchase price of \$8.60 per share. Including the benefit of the shares repurchased in the quarter, our fully diluted weighted shares outstanding were 187.8 million. As a matter of routine course, the company continues to evaluate our capital structure and share repurchase in the context of our operating plans, cash flows, market conditions and strategic alternatives in light of our \$200 million buyback authorization.

Let me touch on cash and cash flow. As we discussed all year, cash flow was significantly positive in the quarter, driven by annual maintenance renewals. We generated \$114 million of cash flow from operations in the quarter and free cash flow of \$107 million. The improvement in cash flow was driven by a very successful collection rate on domestic maintenance renewals. We collected \$148 million of cash for maintenance contracts renewed in the quarter.

On a full-year basis, our cash from operations was \$98.5 million and free cash flow was \$81 million. Our cash and equivalents balance increased to \$554 million, excluding about \$7.5 million of restricted cash required for settlement of the purchase of remaining outstanding shares of Intenia.

As Harry discussed, our cash flow patterns have changed, driven by the annualized maintenance renewal base of January 1st and June 1st. The majority of cash received for maintenance and contract renewals have shifted to the third and fourth fiscal quarters. A large inflow of cash in Q4 will become the norm as we just reported. This will be followed by a net use of cash in the first and second fiscal quarters. Cash flow from operations should turn marginally positive again in the third fiscal quarter and then the renewal cycle will repeat.

Before I turn to future guidance, I'd like to reflect on fiscal '07 with some observations on our performance and progress. I'm very pleased with the progress at Lawson in fiscal '07. The major transition we executed began with the merger with Intenia in rebuilding that business. But that was in fact just the start. The transition continued with substantial business transformation across nearly every facet of the company. The progress we made was not 100% visible in the FY' 07 financial results due to the accounting complexities and the one-time costs around the merger.

However, the improvement in operating results while undergoing such fundamental business changes was evident in positive, improving financial trends every quarter. This includes license revenues moving from \$17 million in Q1 to \$22 million to \$26 million to \$41 million in Q4. Total non-GAAP revenues of \$166 million in Q1 to \$188 million in Q2, \$193 million in Q3 and \$214 million in Q4.

Importantly, non-GAAP operating margin of 3% in Q1 growing to 7%, then 9% and then 10% in Q4. And non-GAAP EPS improving from \$0.02 in Q1 to \$0.03, \$0.06 and the just reported \$0.08 in Q4.

Does this mean that we're finished? Clearly not. Did we meet every goal we had in 2007? Not by a long shot. Did we make significant progress? Yes, in nearly every metric and every business function. We said all along that the full financial benefits from the merger and our other business transformation initiatives won't be fully realized until fiscal 2009. Do I think we're on track for that timetable? Yes, I do. The trends and our key metrics point the fact that we are on the right path.

One of the things I did to prepare for this call was make a list of some of the substantial changes we executed in FY '07. The amount of transformation in our company was sizeable. Let me give you a partial list. We not only completed the integration of our product line, we introduced a strong lineup of new products. We built a global sales organization and increased our quota-carrying sales force by 30%. We began to see benefits in sales activity with new accounts increasing each quarter with 228 deals in Q1, followed by 307 in Q2, 354 in Q3 and 751 in Q4. Sales productivity for AE improved nearly 30% over the course of the year.

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We substantially restructured our worldwide staffing and facility footprint. While we built five new operations in the Philippines, we also rationalized and consolidated other facilities in Europe. We increased our offshore staff from effectively zero at the beginning of the year, to 331 employees at year-end. That's 9% of our workforce offshore, still short of our goal of 20 to 25%, but never the less, very strong progress in a relatively short period of time.

We streamlined our maintenance renewal program for nearly 4,000 customers, impacting cash collections of nearly \$300 million. DSOs improved from 85 days in Q1 to 69 days at year-end, driven by significant working capital improvements. We rolled out new global contracting processes under US GAAP and built a contracting and revenue team of experts to scale our global operations. We completed key components of shared services centers in Europe and made significant steps to centralize and standardize processes in the region to eliminate complexity and lower costs in the future.

We unlocked value in our balance sheet with an NPV accretive convertible note, hedge and warrant transaction which was done at a historically low cost of capital. And we returned \$55 million of cash to shareholders by repurchasing 3% of our shares during the year while we were undergoing major operational transition.

These are just a few of the operational initiatives we've taken to strengthen the company. More will be done over the next year. As we've also discussed, while we've made significant progress in fiscal '07, we have more wood to chop in fiscal '08. Our key operational initiatives for fiscal '08 include improving our services margins, driving increased sales productivity, completing our global workforce restructuring efforts in Manila, completing the shared services center and restructuring in the EMEA region and completing our financial system and IT integration.

In short, we began in a more challenging place than was expected upon the acquisition of Intenia. We clearly have much work to do. But I am pleased with what we have accomplished and the direction we are heading as we continue to improve the business.

Now let me spend some time on guidance and begin with Q1 guidance. We anticipate total revenue of between \$183 million and \$188 million. This consists of license revenues of between \$24 and \$27 million, maintenance revenue of between \$78 and \$79 million and consulting services of between \$80 and \$82 million. I would also note that we anticipate \$700,000 of impact from the purchase accounting adjustments to revenues in fiscal '08. On a quarterly basis, the amounts will only be \$100,000 to \$200,000, so we will no longer be forecasting non-GAAP adjusted revenue.

GAAP EPS is anticipated to fall in the range of \$0.01 to \$0.03 per fully diluted share. On a non-GAAP basis, excluding the impacts which most of you model, EPS is expected to be \$0.04 to \$0.06 in our first quarter. Our estimate of Q1 non-GAAP EPS excludes \$10 million of pretax expenses related to the amortization of acquisition-related intangibles, amortization of purchase maintenance contracts and stock-based compensation charges and an anticipated effective tax rate of between 42% and 45%.

Now let me give you a view and perspective of FY '08. We anticipate total revenues will be in the range of \$820 million to \$830 million. We expect full-year GAAP EPS to be in the range of \$0.17 to \$0.22 per fully diluted share. On a non-GAAP basis, EPS is expected to be \$0.30 to \$0.34. Our estimate of full-year non-GAAP EPS exceeds approximately \$37 million of pretax expenses related to the amortization of acquisition related intangibles, amortization of purchased maintenance contracts and stock-based compensation charges at an anticipated effective tax rate of between 42% and 45%.

I would also note importantly that the full-year EPS is negatively impacted by about \$0.03 to \$0.04 per share due to an estimated \$15 million of operating expense related to our global staffing initiative in Manila, implementing a common general ledger and building our shared service centers in Europe.

We won't be providing specific full-year estimates for the individual revenue line items, but I would remind you of some business trends for your consideration and modeling. First, you can certainly see the history that maintenance revenue is reasonably predictable and grows modestly but steadily. For this line item, the historical trend should be a reasonable predictor of sequential growth and total annual maintenance revenue should grow in line with total new license contracting growth. The historical

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maintenance revenue growth rate has been anywhere from 6% to 10%. License and consulting revenues are both more volatile and much more seasonal.

Again, FY '07 historical results can give a baseline indicator of quarterly seasonality. As is standard with all perpetual software license software companies, Q4 typically has the most robust business level.

On the other end of the spectrum, summer holidays for our employees and our customers impact sales cycles and implementation projects in our Q1. As you know, nearly half of our business is done in Europe and the seasonal impact is significant in Q1. We would expect our November and February quarters to increase sequentially from Q1.

With regards to modeling license fees on an annual basis, industry analysts forecast growth in license fees between 6% and 10% annually. One valid approach would be to model in the \$13 million to \$14 million of the net year-over-year benefit from the fiscal 2007 deferred license revenues on top of the growth rate you apply to our 2007 license revenue.

Consulting revenues typically follow licensing activity with a quarter or two lag. And as I said in last quarter's conference call, we are targeting to hold total annual expenses to about a 5% increase in fiscal '08 as compared to fiscal '07, including in restructuring. And that remains our intention.

As we get a lot of questions on this, we'd also like to provide some transparency into our cash flow expectations for the year. Cash flow from operations is expected to be between \$75 million and \$95 million. I point out that fiscal '08 operating cash flow will be negatively impacted by the \$15 million of increased expenses associated with various transformational initiatives, as discussed. In addition, we anticipate capital expenditures in fiscal '08 in the range of \$25 to \$30 million. This includes approximately \$15 million of capital for financial systems, IT infrastructure and facilities investment as we complete our back office integration with Intenia and build up our Manila facility. This is roughly \$15 million greater than historical capital expenditures.

With that, I'd like to turn the call back over to Harry.

Harry Debes - Lawson Software, Inc. - President, CEO

Thanks, Rob. And just a few closing remarks. So you've heard that our business results in fiscal '07 reflect a lot of the hard work that was applied to making our newly combined company work. And the credit for this goes to the 3,800 people who are the Lawson company. This is the same discipline that we applied to the former Lawson while the transaction between the Intenia company was in process. We carried this forward and with it we laid the groundwork for a successful merger.

Today the market is responding well to the transformation that's taking place. Our relationship with our customers has never been stronger. Our pipeline of business opportunities is large and growing. We are engaging in more deals than ever before. And as a result, our revenues and our profitability are improving in every quarter.

The solid foundation of solutions and talent we built in fiscal '07 now allows us to focus on execution, growth and strengthening of profitability. Whereas fiscal '07 was clearly about building and shaping the foundation for the new company, '08's focus will be on execution. This is never a slam-dunk, but from where I sit, I like our chances.

That concludes our comments for today. Operator, we'd now like to open our call for some questions.

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QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Thomas Ernst of Deutsche Bank.

Greg Dunham - Deutsche Bank - Analyst

Actually this is Greg Dunham on behalf of Tom. I've got two questions. One is kind of a high level, kind of where are we in the evolution of the turnaround and specifically, with the Lawson System Foundation 9 release, what are we at in terms of penetration rates within the Lawson base, where in the M3 base? And then a follow-up to that, what kind of adoption have you seen on the application front for some of these customers that have implemented Foundation 9?

Harry Debes - Lawson Software, Inc. - President, CEO

On the LSF question, I think I mentioned there's about 55% of the S3 customers have adopted LSF so far. We increased prices effective June 1st. Actually we increased them fairly significantly. We expect the adoption to go a little bit more slowly, but we still think there's a significant number of customers who will purchase LSF in the next 18 months.

On the M3 side, we just released the product about three or four months ago. And if I track sort of what happened on the S3 side, it took about nine months before we really gained momentum. At this point we probably have less than 50 customers who've acquired the M3 version and so we have a lot of potential to look forward to.

Greg Dunham - Deutsche Bank - Analyst

Okay, great. And then one financial question. Looking at the cash flow guidance of cash from operations it's 75 to 95, it's down a little bit for this year, obviously due to the significant costs in terms of offshoring and some of the shared services stuff. Is there any way you could provide a little bit more color around some of the increased expenses so we have some of the moving pieces in place?

Rob Schriesheim - Lawson Software, Inc. - CFO

Yes. Cash flow from operations for fiscal year '07 was \$98 million. And as we indicated, our cash flow from operations for fiscal year '08 we expect to be \$75 to \$95 million. And as I indicated, we have about \$15 million of expenses related to implementing the general ledger and related to building out our infrastructure in Manila and various shared services. So both of those -- that \$15 million would depress the cash flow from operations to the tune of \$15 million.

And then in addition, if you want to try and calculate a free cash flow number, we also gave you the estimate of our capital expenditures of about \$25 million to \$30 million per year. So, I think that's a fair amount of transparency, more than most people would give. But I think the short answer to your question is, the nature of the expenses that we're incurring relate to implementing our general ledger, relate to implementing various shared service centers and relate to building out our Manila facility.

Greg Dunham - Deutsche Bank - Analyst

That's helpful and the color is helpful. I guess really kind of where I'm going with this is, you had a big build out in deferred revenues and a lot of benefits from working capital this year. Are your assumptions next year for working capital build out not as robust as what you had done, you know, what you did this year, just as a first stab?

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Rob Schriesheim - *Lawson Software, Inc. - CFO*

That's a good question. We benefited this year as a result of having started out in a very poor position in DSOs, for example, and so as an organization we were able to squeeze a fair amount of cash out of the balance sheet by managing down the DSOs from 85 days to 69 days. So while we'd like to look to continue to improve that, we obviously would not expect to see that same benefit in '08 that we enjoyed in '07, because our working capital position has already been approved.

And the other issue to note is that cash taxes in '08 will also increase. In '07 we did have the benefit of an NOL and we have essentially exhausted the NOL. And so as a result, our cash taxes will increase in '08. So all those things combine to flow into our cash flow from operations.

Operator

Alan Cooke of Merrill Lynch.

Alan Cooke - *Merrill Lynch - Analyst*

Thank you and congratulations Harry and Rob on a great quarter. How much of the \$24 to \$27 million license guidance for Q1 is from the recognition of deferred revenues? Is it roughly in line with Q4's \$6 million or did you expect it to be a little bit more than that or less?

Rob Schriesheim - *Lawson Software, Inc. - CFO*

It's roughly in line, but we're not going to get into giving guidance on a quarterly basis about what's rolling in off the balance sheet onto the income statement.

Harry Debes - *Lawson Software, Inc. - President, CEO*

Alan, I should tell you that first of all it's not because we're not trying to be helpful, it's that these amounts are determined by the implementation, the completion of various projects. And so this is a reconciliation we go through at the end of each quarter. We have an estimate and that estimate is in a range right now and that's the numbers we're looking at ourselves. So until we actually determine the percentage of completions of these various projects, we don't know for certain what that number is. But we have an idea, but we don't know for certain.

Alan Cooke - *Merrill Lynch - Analyst*

Sure, I appreciate that. Then with respect to your license growth rate, Rob mentioned the overall industry growth rate, but do you think you can grow faster than that or what do you think is your sustainable growth rate over the next year or two and beyond?

Harry Debes - *Lawson Software, Inc. - President, CEO*

I think we've given some guidance there that we're going to have to stick with for now. You know, let's see how we go in the first couple of quarters and we'll revisit this at the end of our second quarter, halfway through the year and we'll be able to determine the conversion rate that we have of our pipeline. And if we continue to grow our pipeline we may well realize it, but for now, the best visibility we have is the numbers we've shared with you.

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Alan Cooke - Merrill Lynch - Analyst

Okay. And then with respect to the \$15 million in OpEx and the \$25 to \$30 million CapEx, what is the timing for that? Do you think it's going to be more front-end loaded in the first half of the year or balanced throughout the year?

Rob Schriesheim - Lawson Software, Inc. - CFO

I think with regard to the capital expenditures of \$25 million to \$30 million, that will probably be more in the back-half of the year, Q3'ish will probably be the largest quarter, is what I'm thinking. With regards to the operating expenses of \$15 million, that will be more in the front half of the year, in Q1 and Q2.

Alan Cooke - Merrill Lynch - Analyst

Okay, great. And then can you tell us about the progress in terms of hiring a new head of sales?

Harry Debes - Lawson Software, Inc. - President, CEO

Sure. I'm glad you asked that. We've kicked off this exercise in January of this year with a bit of a slow start. I was real disappointed in the first couple of months. But in the last two or three months, we've met a good number of very strong candidates and at this stage we have narrowed it down to a list of about two or three people that I think we that I think we feel pretty comfortable with to go through the last exercise of having them meet some of our board members and completed our reference checks. And I would guess that in the normal course of events, within the next couple of weeks to maybe months or so we should be able to wrap this up.

Alan Cooke - Merrill Lynch - Analyst

Okay, that's great. And your sales reps, you're at about 200 sales reps right now. What do you think your plans are for hiring the remainder of the year? Do you think you'll get up to 225-250?

Harry Debes - Lawson Software, Inc. - President, CEO

Right now we're planning to add about 10 to 15% salespeople, at a slower pace than we did last year. It will also be selective in certain parts of the business like M3 Americas will be more aggressive. In certain other parts of the business it will be slower. And as I said, our focus this year is more on execution. We are making some capital investments, but in terms of the resources to personnel, other than the large growth we expect in our offshore resources in Manila, where we expect to almost double the headcount over the next 12 months. In terms of the other personnel, the domestic personnel, not so much.

Alan Cooke - Merrill Lynch - Analyst

Great. And then you bring up a good point with respect to M3. What has your progress been in selling the M3? How do you feel your progress is coming along in North America?

Harry Debes - Lawson Software, Inc. - President, CEO

As I said, there are 11 new name accounts, which I can't even count the percentage increase. I think that there were less than one or two in the previous year. And I think the most important indicator was the fact that I mentioned the pipeline, which was

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\$10 million at this time last year, is now \$97 million. Having looked at that very carefully, we believe that's a completely valid and legitimate pipeline. So that's very very encouraging. That basically says we have approximately 4-times coverage for each of our AEs today. Personally I believe that pipeline will continue to grow for a while. I don't think we've exhausted that yet.

Alan Cooke - *Merrill Lynch - Analyst*

Okay. And then my last question is on stock buybacks. What sort of level of stock buybacks do you think you're going to do as the year progresses?

Rob Schriesheim - *Lawson Software, Inc. - CFO*

I appreciate the question. I understand why you're asking. I think I was about as clear as I could be, which probably wasn't terribly clear, in my formal remarks, in that we've got a \$200 million authorized buyback. We've spent under that authorized buyback about \$55 million.

I can tell you that our board routinely looks at various ways we can create value and that can include share buybacks and a variety of other actions that we can take. We proved that earlier this year when we did the optimization of the balance sheet. But we've got no specific guidance to give on what we may or may not decide to purchase. It's really based upon market conditions and our view of how we can create value.

Operator

Peter Goldmacher of Cowen & Company.

Peter Goldmacher - *Cowen & Company - Analyst*

I want to ask you to clarify some of the deferred revenue rolling off the balance sheet. Earlier in the call you said you intend to recognize \$30 to \$32 million in '08 of deferred revenue. Did I understand you to say a little later in the call that \$18 million of that \$30 to \$32 million will be from '07 contracts?

Rob Schriesheim - *Lawson Software, Inc. - CFO*

No. If I wasn't clear, I apologize, Peter. What I said was that during the course of fiscal '07, we benefited from about \$18 million rolling off of our balance sheet onto our income statement during the course of FY '07. And then what we're saying is that we've got a deferred balance at the end of '07 of about \$35 million and we anticipate somewhere in the neighborhood of \$30 to \$32 million of that \$35 million rolling onto our income statement during the course of FY '08.

What I was trying to point out to people is that we did benefit more than we thought we would in '07 due to the roll-off of deferred revenues in the amount of about \$18 million. So the incremental difference from '07 to '08 would not be \$32 million for example, it would be \$32 million that would roll-off in '08 versus the \$18 million that rolled off in '07 for a net difference of about \$14 million. And I was just doing that to provide clarity to people.

Peter Goldmacher - *Cowen & Company - Analyst*

Okay. So if I'm backing into some of your guidance for '08 of 820 to 830 full year, I'm coming up with about a 5% new license growth in '08 if I call it like 130 number assumes 30 million of that is deferred and then you're deferring some of the '08 contracts as well. Is that about -- am I close?

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Rob Schriesheim - *Lawson Software, Inc. - CFO*

As I said, we're not going to give specific revenue line item guidance, but what you can do is simply take the market growth of 6% to 10% that the analysts estimate ERP market growth of 6% to 10% -- you can take that growth as a range, you can apply it to our FY '07 license revenues and then you could add to that the net difference of about \$14 million, which is the net difference of the amount that came onto our income statement this year and the amount that will come onto our income statement next year.

Peter Goldmacher - *Cowen & Company - Analyst*

Okay, so that would be the math, but that says almost nothing of the fact that you have a third more quota-carrying sales reps heading into '08 than you did in '07.

Rob Schriesheim - *Lawson Software, Inc. - CFO*

It's true we do have significantly more quota-carrying sales reps. We also though -- our experience shows us that it does take about nine months to a year for those sales reps to become productive and we still are going through the process of building out a global sales force that has consistent practices and procedures on a global basis. So there are some factors about when they reach full levels of productivity.

Peter Goldmacher - *Cowen & Company - Analyst*

Okay, but you didn't increase sales reps in Q4, right? There were no additional adds? Because I think on the Q3 call you had 200.

Harry Debes - *Lawson Software, Inc. - President, CEO*

I thought we had 190 or something like that. It was 193.

Rob Schriesheim - *Lawson Software, Inc. - CFO*

At the end of Q1 we had 162. At the end of Q2 we had 171. At the end of Q3 we had 194 and at the end of Q4 we had 202. But I'd also point out we don't give the specifics for example of which portion of those was S3, which portion was M3.

Harry Debes - *Lawson Software, Inc. - President, CEO*

And I should also tell you that those are the growth numbers, but there was turnover, some of it voluntary, some of it not voluntary, so it wasn't just about adds. We also asked some people to leave. We have a significant number of relatively new people in the sales force.

Operator

Adam Holt from JPMorgan.

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Nitin Doke - *JP Morgan Chase & Company - Analyst*

This is Nitin Doke for Adam Holt. Quick question on your sales to existing customers, they were quite high this quarter. Is there any additional color you can provide? Was it mainly due to the sales of LSF?

Harry Debes - *Lawson Software, Inc. - President, CEO*

Absolutely. I think I mentioned that in my comments. You know, \$15 million, we expected better. Just to put some color on this. You know, we've been selling LSF every quarter of FY '07. It's not like we didn't sell anything Q1, Q2, Q3 and all of the sudden we backed up the truck and sold it all in Q4. That's not what happened.

But what did happen, as I tried to explain, it takes a little while for customers to, first of all, understand what the solution is all about, plan for it in their budget and then plan for their implementation cycle. And I think from the natural momentum of the deal, a good product, well positioned, well sized, clearly adding some benefit. People finally, after our customer user event that we held in March, where we really showcased the progress and success of many early adopters of LSF. Coming off that event, a lot of customers -- and by the way, in addition, we announced the price increase. So a lot of customers purchased it in Q4, so as a result we have a very high percentage of revenue due to the installed base.

As I mentioned, that's not typical. We typically sell about 60% of our revenues to the installed base and I think of us as being more of a new business engine than frankly any of our competitors who are traditionally selling 85 to 95% of their business to the installed on license revenue. We're not that way. This is an exceptional quarter. I think if you go back and look at the previous quarter's results you'll see what I'm saying. And that's what we anticipate going forward and as we look of our pipeline, that's what it primarily consists of, a lot of new business.

So hey, I'm going to take the revenue gladly. It's a reflection of customers saying we like what you're making available to us, so I'll have some more of that. Great. I'm happy.

Nitin Doke - *JP Morgan Chase & Company - Analyst*

Great. I appreciate that help here. And in terms of the M3 version of LFS, did that see a price increase in June as well?

Harry Debes - *Lawson Software, Inc. - President, CEO*

The M3 version, which we call MSF, was just announced a couple of months ago, so we have no price increase for that just yet.

Nitin Doke - *JP Morgan Chase & Company - Analyst*

But there are step plans sometime in FY '08 or--?

Harry Debes - *Lawson Software, Inc. - President, CEO*

I just said, we just announced it. You don't typically announce a price increase two months after you announce it. We're basically now explaining it to the M3 customers just as we did to the S3 customers. We're giving the early adopters a chance to get comfortable with it. We plan to have them then do testimonials. We're going to follow the same pattern which worked so well in the LSF case, so why change it? Why mess with that?

It was a great rollout. I compliment the development team, the strategy team and the rollout team and the implementation team. They all did a great job with LSF. We're going to follow the same pattern with the MSF side.

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Nitin Doke - *JP Morgan Chase & Company - Analyst*

On your Manila facility buildout you had mentioned that initially you would see some expense headwind because of [inaudible] which would require you to double staff. When do you think that headwind will go away and you'll start seeing expense synergies from your Manila operations?

Rob Schriesheim - *Lawson Software, Inc. - CFO*

We have been very consistent in that in saying that we would see the duplicative level of operating expenses throughout fiscal '08 more in the first half of the year, but we'd also see certain levels continue throughout FY '08, so that you wouldn't really see a completely clean picture until you got to Q1 '09.

Operator

Jim Bao with Criterion Capital Management.

Jim Bao - *Criterion Capital Management - Analyst*

Did you talk about the amount of license contracting in the quarter?

Harry Debes - *Lawson Software, Inc. - President, CEO*

No, we didn't. Just so you know. We did that. When we started doing that a year ago, I did so for the express purpose of helping you to understand what was going on in the business, because we knew that a significant amount of contracting was going to be deferred and if we only deferred license revenue you would have thought that we were all on vacation.

However, having now completed the 12-month cycle and having a balance, you know, recognition of deferrals and having revenue roll in from the balance sheet and having more of an equilibrium as Rob explained, we don't think it's necessary to do that anymore.

Let's face it, that's probably the most difficult number for any software company, I don't care who you are, to be able to tell you, because there's a lot of stuff that happens in terms of the last days of the quarter sometimes. And it can drive you crazy trying to pick a number 90 days in advance that is very very difficult by anyone's judgment, to be able to nail down.

So we were creating a [inaudible] all of last year. Sometimes we made it, sometimes we didn't make it and we don't think it's necessary to do that, because we can give you license revenue guidance now with a higher degree of certainty than we could last year.

Jim Bao - *Criterion Capital Management - Analyst*

But you did say that amount that rolled off the balance sheet this quarter was \$6 million, right?

Harry Debes - *Lawson Software, Inc. - President, CEO*

We didn't say that. You guys guessed it and we didn't deny it.

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Jim Bao - *Criterion Capital Management - Analyst*

And for the whole year it was \$18 million.

Rob Schriesheim - *Lawson Software, Inc. - CFO*

That's right, yes.

Jim Bao - *Criterion Capital Management - Analyst*

Okay. And also the amount of recognition of your book license was about 70% in the quarter.

Rob Schriesheim - *Lawson Software, Inc. - CFO*

It was 80% in the fourth quarter. For the first three quarters it averaged about 60 to 65%. It was high this quarter, as we indicated, for several reasons, one of which was the high number of LSF deals. And LSF generally is recognized 100% because it requires little in the way of services and a variety of other reasons related to fourth quarter phenomenon. The 82% revenue recognition rate is not representative of where we'd expect to be in the future, in a normal quarter.

Jim Bow

And the increased level of CapEx and OpEx in next fiscal year, should we expect that to go away in fiscal '09?

Rob Schriesheim - *Lawson Software, Inc. - CFO*

We should expect higher margins in '09. We should expect that our capital expenditures will be lower than the \$25 to \$30 million that we forecast. This year we had capital expenditures of about \$17 million, which was actually a little bit higher than historically what the combined entity would have realized. But the \$25 to \$30 million is higher yet again as a result of the investment required to adequately build up a variety of things that we need to invest in, such as our common general ledger or various IT infrastructure and global offshoring and shared services.

The operating expenses we will incur are certain duplicative operating expenses during the year and as we have said, we did expect, still, despite the increased level of expenses that we were targeting holding our FY '08 total expenses to about 5% increase over our FY '07 total expenses.

Harry Debes - *Lawson Software, Inc. - President, CEO*

So the answer to your question is, yes.

Jim Bao - *Criterion Capital Management - Analyst*

And lastly, can you give us a sense of your cash tax rate for the next two years?

Rob Schriesheim - *Lawson Software, Inc. - CFO*

No. Our cash taxes in FY '07 were very low. They were about \$3 million, because we had the benefit of the NOL which has now been largely utilized. So that what we've done is forecast our effective tax rate of between 42 and 45%.

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Operator

Brad Smith of Dougherty.

Brad Smith - Dougherty - Analyst

In the past I think you gave some metrics around billable hours delivered from Manila. Did you happen to give any background around how that delivery looked in Q4?

Harry Debes - Lawson Software, Inc. - President, CEO

It grew. It continues to grow every quarter. I don't have at my fingertips the exact number at my fingertips. It grew and we expect it to continue to grow every single quarter.

Brad Smith - Dougherty - Analyst

Are you happy with the progress you've made to date on that?

Harry Debes - Lawson Software, Inc. - President, CEO

No.

Brad Smith - Dougherty - Analyst

Okay. From a product perspective, how do you guys feel about the regionalization of S3 and the opportunity to expand that within the EMEA region? Can you give us an update of where you are as far as that cycle?

Harry Debes - Lawson Software, Inc. - President, CEO

Yes. For certain parts of EMEA, S3 is looking perfectly well. For the UK, for some of the Nordic countries, for France, we have sites and we are selling it. For other parts it isn't completely globalized yet and translated. On some of the solutions, as I mentioned, business intelligence has now been enabled, translated and localized. Our remote sales of that in the last year is in 13 different countries. We expect to do something similar with our Human Capital Management solution sometime this year, but give us another quarter or so and we'll tell you more about that.

So we know that the M3 has greater global potential, because the central organization, give them full credit for this, operated more globally than the Lawson company did. There are things that we've learned and also in addition we've learned from Intenia, it's how to produce it and package and release a product to the global markets. And so that was not applied for S3 in the past. We're doing that

Brad Smith - Dougherty - Analyst

How do you feel about the current partner distribution channels and what are your expectations to continue to build that out?

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Harry Debes - Lawson Software, Inc. - President, CEO

It's a big focus for us. We have about 10 people who are focused on signing additional partners and managing some of the partner relationships we have. We did actually did sign I think about six or seven [inaudible], 3 partners in Q4. As you know, the IBM relationship that was announced in January or February of this year about IBM becoming a reseller.

They've been spending most of the time for the first half of the year training their personnel and building up a pipeline, which is pretty healthy right now and I think that very soon we'll be able to announce to you some deals that we're pushing through the IBM channel, as well as some -- and maybe in the future we'll talk a little about the success of our reseller channel. Because we've given them access to our sales force automation system. They're putting in their qualified leads, we're visiting them. We're making some success there.

And partnering channels isn't just about resellers. We're also expanding our whole ecosystem with partners. That includes services partners and it includes product [inaudible] partners. Because in some parts of the world you need those services partners and because you've got physical coverage. This is a big investment for us as well.

Operator

At this time I'd like to turn the call back over to our host for closing remarks.

Harry Debes - Lawson Software, Inc. - President, CEO

Ladies and gentlemen, thank you very much. It's been a long journey. Many companies who take on a drill like this fail. I think that that was what you told us a year ago and reminded us constantly on these earlier calls that this was a high-risk proposition. We knew that there was a certain element of risk, but I would credit all the people who are here at the new Lawson company for their hard work and perseverance and to deal with the many issues and obstacles that were presented to us and work through those and to develop an organization that although we haven't realized our potential yet, I believe we are well on the way to do that.

Somebody asked me at the very first call, Greg asked, where are you in terms of the completion of the turnaround and transition? I'd say we are about 65% to 70% there. I'm not in any way are we claiming victory, but I'm certainly pleased, as is Rob, with the progress that we've made, the commitment that our people have shown. It's important we see if from our customers. It has been fantastic. And also the recognition that we're receiving in the market at large has been very encouraging as our pipeline grows.

Stay tuned. I think we've got good moves to share with you in the future. Thanks a lot.

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