



# **FORM 10-K**

**BORLAND SOFTWARE CORP - BORL**

**Filed: March 07, 2008 (period: December 31, 2007)**

Annual report which provides a comprehensive overview of the company for the past year

# Table of Contents

[10-K - FORM 10-K](#)

## [PART I](#)

|                                 |  |
|---------------------------------|--|
| <a href="#"><u>ITEM 1.</u></a>  | <a href="#"><u>BUSINESS</u></a>  |
| <a href="#"><u>ITEM 1A.</u></a> | <a href="#"><u>RISK FACTORS</u></a>  |
| <a href="#"><u>ITEM 1B.</u></a> | <a href="#"><u>UNRESOLVED STAFF COMMENTS</u></a>                           |
| <a href="#"><u>ITEM 2.</u></a>  | <a href="#"><u>PROPERTIES</u></a>  |
| <a href="#"><u>ITEM 3.</u></a>  | <a href="#"><u>LEGAL PROCEEDINGS</u></a>                                   |
| <a href="#"><u>ITEM 4.</u></a>  | <a href="#"><u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u></a> |

## [PART II](#)

|                                 |   |
|---------------------------------|---|
| <a href="#"><u>ITEM 5.</u></a>  | <a href="#"><u>MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u></a> |
| <a href="#"><u>ITEM 6.</u></a>  | <a href="#"><u>SELECTED FINANCIAL DATA</u></a>  |
| <a href="#"><u>ITEM 7.</u></a>  | <a href="#"><u>MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></a>                        |
| <a href="#"><u>ITEM 7A.</u></a> | <a href="#"><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></a>   |
| <a href="#"><u>ITEM 8.</u></a>  | <a href="#"><u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u></a>  |
| <a href="#"><u>ITEM 9.</u></a>  | <a href="#"><u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u></a>                         |
| <a href="#"><u>ITEM 9A.</u></a> | <a href="#"><u>CONTROLS AND PROCEDURES</u></a>  |
| <a href="#"><u>ITEM 9B.</u></a> | <a href="#"><u>OTHER INFORMATION</u></a>  |

## [PART III](#)

|                                 |   |
|---------------------------------|---|
| <a href="#"><u>ITEM 10.</u></a> | <a href="#"><u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u></a>   |
| <a href="#"><u>ITEM 11.</u></a> | <a href="#"><u>EXECUTIVE COMPENSATION</u></a>   |
| <a href="#"><u>ITEM 12.</u></a> | <a href="#"><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u></a> |
| <a href="#"><u>ITEM 13.</u></a> | <a href="#"><u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u></a>                       |
| <a href="#"><u>ITEM 14.</u></a> | <a href="#"><u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u></a>   |

## [PART IV](#)

|                                 |  |
|---------------------------------|--|
| <a href="#"><u>ITEM 15.</u></a> | <a href="#"><u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u></a> |
|                                 | <a href="#"><u>SIGNATURES</u></a>                              |
|                                 | <a href="#"><u>EXHIBIT INDEX</u></a>                           |

[EX-21.1 \(EXHIBIT 21.1\)](#)

[EX-23.1 \(EXHIBIT 23.1\)](#)

[EX-31.1 \(EXHIBIT 31.1\)](#)

[EX-31.2 \(EXHIBIT 31.2\)](#)

[EX-32.1 \(EXHIBIT 32.1\)](#)

[EX-32.2 \(EXHIBIT 32.2\)](#)



**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2007**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to**
- Commission file no. 001-10824**

**BORLAND SOFTWARE CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**94-2895440**  
*(I.R.S. Employer  
Identification No.)*

**8303 N. MOPAC EXPRESSWAY, SUITE A-300**  
**AUSTIN, TEXAS 78759**

*(Address of principal executive offices, including zip code)*

**(512) 340-2200**

**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of Each Class</b>     | <b>Name of Each Exchange on Which Registered</b> |
|--------------------------------|--|
| Common Stock, \$0.01 per share | The NASDAQ Stock Market LLC                      |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**  
**(Title of Classes)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting  
(Do not check if a smaller reporting company)      company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock on June 29, 2007 as reported for such date by the Nasdaq Stock Market was approximately

\$207,751,940. Common stock held by each executive officer and director of the registrant and by each person who owns 5% or more of the outstanding common stock have been excluded from this computation because such persons may be deemed affiliates of the registrant. This determination of affiliate status for this purpose does not reflect a determination that any persons are affiliates for any other purposes.

The number of shares of the registrant's common stock outstanding as of February 29, 2008, the most recent practicable date prior to filing of this report, was 72,962,260.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the 2008 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2007, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

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**BORLAND SOFTWARE CORPORATION**  
**Form 10-K**

**For the Fiscal Year Ended December 31, 2007**

**TABLE OF CONTENTS**

|                        | <u>Page</u>   |    |
|------------------------|---|----|
| <b><u>PART I</u></b>   |   |    |
| <u>ITEM 1.</u>         | <u>BUSINESS</u>   | 2  |
| <u>ITEM 1A.</u>        | <u>RISK FACTORS</u>   | 10 |
| <u>ITEM 1B.</u>        | <u>UNRESOLVED STAFF COMMENTS</u>  | 19 |
| <u>ITEM 2.</u>         | <u>PROPERTIES</u>   | 19 |
| <u>ITEM 3.</u>         | <u>LEGAL PROCEEDINGS</u>  | 20 |
| <u>ITEM 4.</u>         | <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>  | 20 |
| <b><u>PART II</u></b>  |   |    |
| <u>ITEM 5.</u>         | <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 20 |
| <u>ITEM 6.</u>         | <u>SELECTED FINANCIAL DATA</u>  | 24 |
| <u>ITEM 7.</u>         | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                        | 25 |
| <u>ITEM 7A.</u>        | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>   | 46 |
| <u>ITEM 8.</u>         | <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>  | 49 |
| <u>ITEM 9.</u>         | <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>                         | 50 |
| <u>ITEM 9A.</u>        | <u>CONTROLS AND PROCEDURES</u>  | 50 |
| <u>ITEM 9B.</u>        | <u>OTHER INFORMATION</u>  | 51 |
| <b><u>PART III</u></b> |   |    |
| <u>ITEM 10.</u>        | <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>   | 51 |
| <u>ITEM 11.</u>        | <u>EXECUTIVE COMPENSATION</u>   | 51 |
| <u>ITEM 12.</u>        | <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>               | 51 |
| <u>ITEM 13.</u>        | <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>                                    | 52 |
| <u>ITEM 14.</u>        | <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>   | 52 |
| <b><u>PART IV</u></b>  |   |    |
| <u>ITEM 15.</u>        | <u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>  | 52 |
|                        | <u>SIGNATURES</u>   | 57 |
|                        | <u>EXHIBIT 21.1</u>   |    |
|                        | <u>EXHIBIT 23.1</u>   |    |
|                        | <u>EXHIBIT 31.1</u>   |    |
|                        | <u>EXHIBIT 31.2</u>   |    |
|                        | <u>EXHIBIT 32.1</u>   |    |
|                        | <u>EXHIBIT 32.2</u>   |    |

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## **A CAUTION ABOUT FORWARD-LOOKING STATEMENTS**

The statements made throughout this Annual Report on Form 10-K that are not historical facts are forward-looking statements and, accordingly, involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those expressed or implied in the forward-looking statements. These forward-looking statements may relate to, but are not limited to, revenues, composition of revenues, cash flows, earnings, margins, profits, costs, expenses, strategy, research and development, customer service and relationships, demand for our products, market and technological trends in the software industry, licenses, developments in technology, product quality and performance, customer needs, competition, sales, cash resources, utilization of cash resources, personnel, expectations regarding restructuring actions, expectations regarding previous and future acquisitions, expectations regarding CodeGear, interest rates, foreign currency exchange rates and various economic and business trends. Generally, you can identify forward-looking statements by the use of words such as “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “goal,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believes,” “predicts,” “potential,” “continue” and similar expressions or the negative or other variations thereof. These forward-looking statements involve substantial risks and uncertainties. Examples of such risks and uncertainties are described under “Risk Factors” and elsewhere in this report, as well as in our other filings with the Securities and Exchange Commission (“SEC”) or in materials incorporated by reference therein. You should be aware that the occurrence of any of these risks and uncertainties may cause our actual results to differ materially from those anticipated in our forward-looking statements and have a material adverse effect on our business, results of operations and financial condition. New factors may emerge from time to time, and it may not be possible for us to predict new factors, nor can we assess the potential effect of any new factors on us.

These forward-looking statements are found at various places throughout this Form 10-K, including the financial statement footnotes. We caution you not to place undue reliance on these forward-looking statements, which, unless otherwise indicated, speak only as of the date they were made. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this Form 10-K, except as required by law.

## **GENERAL INFORMATION**

Borland maintains a website on the Internet at <http://www.borland.com>. The information on, or that can be accessed through, our website is not part of this report.

All Borland brand and product names are trademarks or registered trademarks of Borland Software Corporation, in the United States and other countries. This Form 10-K also contains additional trade names, trademarks and service marks of other companies. We do not intend our use or display of other parties’ trademarks, trade names or service marks to imply a relationship with, or endorsement or sponsorship of, us by these other parties.

## **WHERE YOU CAN FIND MORE INFORMATION**

You are advised to read this Form 10-K in conjunction with other reports and documents that we file from time to time with the SEC. In particular, please read our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file from time to time. You may obtain copies of these reports directly from us or from the SEC at the SEC’s Public Reference Room at 100 F. Street, N.E. Washington, D.C. 20549, and you may obtain information about obtaining access to the Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains information for electronic filers (including Borland) at its website <http://www.sec.gov>. Through our Internet website located at <http://www.borland.com>, we make our SEC filings on Forms 10-K, 10-Q and 8-K and any amendments to those filings available free of charge as soon as reasonably practicable after electronic filing with the SEC.

## PART I

### ITEM 1. BUSINESS

Borland was originally incorporated in California in 1983 and reincorporated in Delaware in 1989. We maintain executive offices and our corporate headquarters at 8303 N. MoPac Expressway, Suite A-300, Austin, Texas 78759, and our main telephone number at that location is (512) 340-2200. We also maintain a website on the Internet at <http://www.borland.com>.

#### Overview

Borland is a leading vendor of Open Application Lifecycle Management solutions, or ALM, which represents the segment of the ALM market in which vendors' solutions are flexible enough to support a customer's specific processes, tools and platforms. Open ALM is a new, customer-centric approach to helping IT organizations transform software delivery into a managed, efficient and predictable business process. We offer a combination of software products as well as consulting and education services to help our customers better manage the growing complexity of software development. Our goal is to provide customers with a foundation which will allow them to consistently deliver software on-time, on-budget and with increased business value.

Borland's solutions address five critical ALM processes: Project & Portfolio Management, Requirements Definition & Management, Lifecycle Quality Management, Model Driven Development and Software Change Management. Each solution can play an important role in helping enterprises manage the complexity of software development and delivery, by providing business, development and operational teams with increased visibility and control over all phases of the software delivery lifecycle. We believe this is especially crucial for large enterprises working within heterogeneous and distributed environments.

We have been evolving our business and strategy in recent years in response to the many changes occurring in the software industry and, specifically in our market. In a March 2005 study, IDC forecasted the ALM market to grow to \$3.3 billion in 2009, achieving a 9.2% compound annual growth rate between 2004 and 2009. In order to capitalize on the ALM market growth, we have made changes to our overall product portfolio, our worldwide services organization, our R&D investments, as well as our global sales and marketing models to reflect our Open ALM vision and product strategy. As part of this transformation, we have shifted our focus from selling individual stand-alone products to selling more multi-product, enterprise-class solutions.

Effective January 1, 2007, consistent with how we manage our business, we changed from reporting one segment to reporting two segments: Enterprise and CodeGear. A summary of the types of products and services provided by the Enterprise and CodeGear segments is provided below.

*Enterprise.* Our Enterprise segment focuses on Open Application Lifecycle Management solutions, or ALM, which includes a combination of software products as well as consulting and education services to help our customers better manage their software development projects. Our ALM portfolio includes products and services for project and portfolio management, requirements definition and management, lifecycle quality management, software configuration and change management and modeling. The Enterprise segment also includes our Deployment Product Group, or DPG, products.

*CodeGear.* Our CodeGear segment focuses on developing tools for individual developers and currently offers a number of Integrated Developer Environment, or IDE, and database products for Java, .NET and Windows development. CodeGear products include Delphi, Delphi for PHP, C++Builder, C#Builder, JBuilder, Turbo<sup>TM</sup> and Interbase. CodeGear also provides worldwide developer support and education services.

#### Industry Background

Many companies today rely on extensive computer systems and software to manage all aspects of their business and achieve competitive advantage. The ability to develop and deliver software efficiently and effectively, and achieve measurable business value from these efforts, is increasingly important in today's fast-paced business environment. To assist in the development process, enterprises have traditionally used multiple, non-integrated tools to automate and manage discrete aspects of the overall application development lifecycle, including

requirements definition and management, design and architectural modeling, development and unit testing, application quality and performance testing, change management, governance and project/portfolio management and deployment of software. However, software development is growing increasingly complex due to shifting standards and requirements, decentralized development teams (frequently associated with off-shoring and outsourcing) and increasing pressure to deliver business value at an accelerated pace. This challenge is especially acute within enterprises in North America and Europe and small to medium size businesses in North America, where, according to a 2007 Forrester study, between one-fifth and one-third of the overall software budget is devoted to new software development projects.

This complexity makes it difficult for enterprises to meet their software development objectives. The 2004 Chaos Report published by the Standish Group states that approximately 70% of software projects failed to deliver either the project at all or what was originally intended without going over budget, missing the deadline or compromising on quality. The cost to an enterprise for failing to meet software delivery deadlines can be substantial. The National Institutes of Standards and Technology reported in a 2002 study that approximately \$60 billion a year is spent correcting software errors in the United States.

As a result, we believe enterprises are beginning to demand products, services and processes that simplify the application development lifecycle, reduce the time-to-market for application delivery, facilitate delivery across multiple platforms, maximize the return on their existing information technology investments and minimize disruption to the enterprise. In today's global business environment, we also believe existing "point solutions" that help individuals with only a particular aspect of the application development lifecycle and that rely exclusively on one technology platform are proving inadequate for the complex needs of the corporate software organization and the business functions it serves. Accordingly, we believe enterprises are increasingly demanding a more comprehensive approach that addresses the skill set issues of their people, the pragmatic implementation of disciplined processes, governance and project/portfolio management, and integrated technology enabling and facilitating the adoption of those processes across the application lifecycle, independent of underlying technology infrastructure platforms.

In this environment, we believe enterprises desire application delivery solutions that:

- accelerate application development and deployment by providing an integrated suite of technologies, consulting services and processes addressing every phase of the application development process;
- lower the cost of ownership and enhance the return on investment from existing technology infrastructure by integrating it with new software applications, including customer facing front ends;
- mitigate the risks of failed software delivery by enabling a more collaborative, disciplined approach to application lifecycle management; and
- are platform-neutral, facilitate interoperability and allow for maximum flexibility and freedom of choice across information technology systems, which increasingly require the ability to function in heterogeneous environments.

## Strategy

In January 2007, we introduced the concept of Open ALM to the market — open to our customers' processes, tools and platforms. Our goal is to help enterprises create a more predictable, more efficient, and more effective software delivery process. Our products enable our customers to have a software delivery process that can prioritize projects by business value, provide management visibility of project status and integrate different functions of the development process. Our products help our customers to deliver their software on time and within their budgets. We believe this can only be done through an integrated combination of technology, skills training and process improvement. Our strategy is to expand our capability in each of these key areas.

- *Technology:* Our ALM product portfolio today includes capabilities for project and portfolio management, requirements definition and management, modeling, development, lifecycle quality, testing and performance management and software configuration and change management. We intend to continue to develop and buy new technologies to advance and expand our existing technology set.

- *People*: Relying on technology alone is not enough. The individuals involved in the development process must be trained on the process and the technology to ensure effective implementation. We intend to continue to develop our educational service offerings to support the key roles and processes within the software delivery lifecycle, and to build out multiple avenues of delivering these services to our customers, including through a network of partners and Web-based delivery programs.
- *Process*: We believe that an effective and repeatable process adhering to recognized standards such as Capability Maturity Model Index, or CMMI, is required for companies to get the most from their software development efforts. We also are working to provide best practice consulting for organizations adopting an Agile methodology to software delivery. The Agile methodology is one which anticipates the need for flexibility and applies a level of pragmatism into the delivery of the finished product. It is a methodology which an increasing number of our customers appear to be adopting.

## **Our Solutions, Products and Services**

### ***Solutions***

Over the past several years, we have broadened our ALM portfolio to include products and services for project and portfolio management, requirements definition and management, lifecycle quality management, software configuration and change management and modeling. In 2006, we extended the integration between our ALM products and third-party tools, to provide customers with a comprehensive portfolio of integrated ALM solutions to manage, measure and continuously improve each of the critical software delivery processes.

- *Project and Portfolio Management* — Enables organizations to gain visibility into whether they are using the right software the correct way, and to measure the results and manage the process.
- *Requirements Definition and Management* — Enables organizations to define, manage and certify system or project requirements to reduce miscommunication and ensure that IT is aligned with business priorities.
- *Software Change Management* — Enables organizations to manage and respond to changes within the software delivery lifecycle, ultimately helping IT teams to reduce complexity and improve agility and responsiveness to the business.
- *Lifecycle Quality Management* — Enables organizations to proactively address and ensure quality from the very beginning of the software delivery lifecycle, rather than test at the end of the lifecycle when quality issues are more expensive to fix.

We believe the ability to master these critical processes is key to transforming software delivery into a managed business process. Our complete solution includes a tailored combination of team training and individual courseware, process improvement services and ALM technology designed and implemented by one of our solution architects with a goal toward fitting a customer's unique needs. This approach is designed to help IT organizations address their fundamental pain points and transform software delivery into a managed, efficient and predictable business process.

### ***Products***

We offer products across the development, management and deployment markets. Specifically, we offer products in the following categories:

*Project and Portfolio Management.* Borland Tempo software is a customizable system which includes capabilities for six key aspects of Project and Portfolio Management: demand management, portfolio management, project and program management, resource management, financial management and asset management. Borland Tempo is designed to provide participants in the software delivery lifecycle access to the right data at the right time and to enable the right decision making.

*Requirements Management.* Borland CaliberRM is a web-based requirements management system designed to manage the evolution of software requirements as well as the relationship between requirements and documentation, tests, models and code. CaliberRM helps business analysts create more precise and actionable

requirements. Once the requirements are captured in CaliberRM, the development, documentation, test creation and project management processes can begin in parallel. CaliberRM is meant to identify changes in requirements early to enable software teams to avoid working from out-of-date requirements and costly, time-consuming rework. As a result, they can build the desired features to meet business needs.

*Requirements Definition.* Borland Caliber DefineIT directly supports all four process areas of software requirements definition: elicitation, analysis, specification and validation. Caliber DefineIT is designed with a goal of ensuring the accuracy and complete definition of software requirements at the beginning of a new project or enhancement activity. It assists business users and analysts in collaborating to capture and detail business scenarios. Visual storyboarding can provide an interactive and effective means to solicit feedback and validate business needs.

*Automated Test Management.* Borland SilkCentral Test Manager is an all-inclusive, automated software testing management tool. It builds quality and productivity into the testing process to speed the delivery of successful software projects, while minimizing risks of application failures. SilkCentral Test Manager consolidates the critical phases of software testing — planning, test requirements management, organization, execution, defect management and reporting — within a scalable, web-based system to assure local or distributed teams are sharing experience, resources and critical information.

*Performance Test Management.* Borland SilkPerformer is an easy-to-use and cost-effective enterprise-class solution for automated software load, stress and performance testing in an open and accessible model. SilkPerformer enables the creation of powerful, realistic load tests of thousands of users running business scenarios across a broad range of popular enterprise application environments. Based only on a pool of shared “Virtual Users,” SilkPerformer removes the cost and complexity associated with other enterprise load testing solutions that restrict usage to one or, at most, several projects or teams.

*Functional Test Automation.* Borland SilkTest is a cost-effective solution for automated functional and regression testing. Intuitive graphical user interface record and replay capabilities, coupled with a stable, easy-to-use testing language, allows test engineers to build functional and regression tests that will not break with minor changes to applications.

*Continuous Build and Test Automation.* Borland Gauntlet is a continuous build and test automation product that improves visibility, software quality and developer productivity by proactively building and testing code, isolating defects, and reporting on key development metrics. Gauntlet institutes quality controls within existing version control processes to enable development teams to identify and isolate problems earlier in the application lifecycle — when the impact can be minimized — by automatically inspecting development artifacts every time a change is made or at desired intervals. Gauntlet also offers an open plug-in interface for custom and third-party tests, enabling users to automate anything from simple source code analyzers such as FindBugs or CheckStyle, to complex security vulnerability detection or license compliance enforcement solutions.

*Modeling.* Borland Together is a family of role-based modeling products that drive greater efficiency and better quality across software development implementations. Together is designed to help reduce technical complexity and bridge the gap between business and IT organizations by providing a common set of visual languages with support for business process modeling, data modeling, application modeling and visualization, as well as comprehensive audits and metrics for both models and code.

*Software Configuration and Change Management.* Borland StarTeam is a platform for coordinating and managing the entire software delivery process. StarTeam is designed to promote better team communication and collaboration through centralized control of project assets across distributed teams. StarTeam also includes integrated requirements management, change management, defect tracking, file versioning, threaded discussions, and project and task management.

*CodeGear Development Products.* Our CodeGear division focuses on developing tools for individual developers and currently offers a number of IDE products for Java, .NET, Windows and Linux development. IDE products include Delphi, C++Builder and C#Builder, which are offered individually or together as part of Borland Developer Studio, our multi-language developer environment for Microsoft Windows and .NET applications. CodeGear also offers JBuilder, a cross-platform environment for building strong enterprise Java applications.

*Deployment.* We provide application middleware for high-performance, low-latency, transaction-intensive applications. These include: VisiBroker, our common object request broker architecture; CORBA, a solution for distributed object computing and embedded devices; and Borland Enterprise Server/AppServer Edition, our J2EE 1.3 compliant application server.

### **Services**

We offer services aimed at streamlining the path to software process improvement. Our service professionals use our Borland Accelerate Improvement Framework, an integrated implementation framework. The framework integrates three core elements — process, technology and skills development — to create solutions and manage change implementation. We offer a comprehensive and integrated set of consulting, education and technical support solutions to support organizations that are transforming their software delivery processes. These services are offered on a worldwide basis.

Service offerings include:

*Technical Support.* Our technical support services are designed to ensure high availability and reliability of mission-critical software delivery platforms. Borland technical support teams serve all major regions of the world. The support teams are equipped to address not only Borland solutions but also complementary technologies, including partner products and open source components. Multiple information channels, including support.borland.com, and a set of self-service tools enable customers to search for the information they need. We offer varying levels of support programs for our customers and partners. Depending on the level of support program selected, we provide online case tracking and knowledge bases, telephone support and access to new versions of our products.

*Consulting Services.* We offer consulting services designed to meet the needs of Global 2000 organizations. Our offerings include:

- *Process Consulting Services.* Our process consulting services are designed to establish a process foundation for our customers' software delivery platform. Process optimization begins with formal appraisals and informal checklists to help enterprises evaluate current performance and set realistic goals. Borland Services build on these assessments by working with management teams to define optimal software delivery practices. We then combine workshops and consulting to define and operationalize the necessary changes into software processes. Throughout the engagement, Borland Services use a customer-tailored approach for deliverables and actionable recommendations to establish processes designed to improve reliability, reduce defects, and improve productivity.
- *Technology Implementation Services.* We offer integration services to streamline the assimilation of our solutions into an existing IT environment, thereby protecting existing investments. Borland Services work with enterprise teams to develop customized implementation plans, assess their ability to execute, and as necessary, fill gaps to provide additional leverage. Borland complements integration services with application and data migration services to successfully transition from an existing software development platform. We also offer packaged services, including QuickStart and Technical Account Management, designed to accelerate the rollout of the software delivery platform.

*Education Services.* We offer a wide range of educational services such as computer-based, virtual instructor-led, e-seminar, onsite instructor-led, and open enrollment courses through our Borland University learning portal. The portal is a Web-based gateway, enabling enterprises to tailor a customized training program. Curricula are role-based and designed to map to customers' use of our individual products and ALM suite. Product certification programs are also available.

### **Customers and Partners**

Our current target customers for ALM solutions are IT organizations within the Global 2000 companies. Our customers operate across a diverse set of industries trying to meet numerous and complex needs, often with globally distributed development teams. Our go-to-market model for the Global 2000 companies is based on direct selling and leveraging a network of system integrators and third-party resellers.

We have been developing global alliance partnerships with independent software vendors, or ISVs, global, regional and local system integrators, or SIs, to penetrate new accounts, expand our technology solutions and extend our capacity to provide professional services. Some of our partners use our technology within their development organizations. In addition, partners may incorporate our technology within their product solutions and/or sell or recommend our technology in conjunction with their products and services. We also have several partners who are Original Equipment Manufacturers, or OEMs. Our OEM partners both integrate and often resell our software around the world. Finally, we utilize service delivery partners to extend our capacity to provide professional services. We believe each type of partnership can potentially generate new sales opportunities, increase our deployment capacity and enhance our technology solutions.

Our CodeGear division targets end user developers, whether individually or as part of a group within an enterprise. The go-to-market model leverages a network of distributors, resellers and system integrators. CodeGear's products and services help organizations large and small across the world. Our customers span industries ranging from the public sector and healthcare to telecommunications and financial service firms.

## **Sales and Marketing**

Our sales strategy combines a direct sales organization with an established indirect sales channel. Our direct and SI sales resources generally target the following opportunities:

- major accounts by named sales representatives;
- smaller accounts by sales personnel on the basis of geography; and
- a specific focus on global system integrators, to reach more customers through a comprehensive solution selling approach.

Our indirect sales channels generally sell products from our CodeGear division and consist of the following:

- a worldwide network of independent distributors, dealers, value-added resellers, or VARs, specialty catalogue vendors and ISVs; and
- our e-commerce Internet site.

We conduct operations and sell a substantial portion of our products outside the United States. In support of those efforts, we currently maintain international offices in a number of foreign countries and territories, including Australia, Canada, France, Germany, Japan, Singapore and the United Kingdom. International sales accounted for 58%, 52% and 57% of our total revenues in 2007, 2006 and 2005, respectively. Specifically, revenues in Europe, Asia and Canada/Latin America accounted for 37%, 12%, and 9% of our total revenue in 2007, respectively. Within Europe, revenues in Germany and the United Kingdom accounted for 11% each, of our total revenue in 2007. We did not have revenue in any other country which amounted to 10% or more of our total revenue in 2007. Additionally, we market and sell our products in international territories, including those not covered by any of our foreign offices, through independent distributors, sales agents, VARs and ISVs. No customer accounted for over 10% of total revenue in 2007, 2006, or 2005. While revenue recognition for our software licenses may be affected by numerous aspects of an arrangement, for the majority of our customer contracts, we recognize software license revenue upon shipment of product. Our policies are discussed extensively in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates*. As of December 31, 2007 and 2006, open sales backlog was insignificant.

Our marketing and lead-generation activities are designed to support the above sales strategy, to drive awareness and create and foster sales leads for the previously-mentioned solutions, products and services, as well as increase visibility of the Borland brand and our Open ALM strategy.

## **Research and Development**

We believe innovation, timeliness of product releases and high product quality are essential to maintain a competitive position. Consequently, we dedicate considerable resources to development efforts to enhance existing

products and developing new products. The product development group is responsible for the design, development and release of product enhancements, upgrades and new products.

Our research and development efforts are directed at enhancing our current technology and products, especially ALM products. We devote a significant percentage of our operating expenses to research and development efforts. Research and development expenses in 2007, 2006 and 2005 were \$57.8 million, \$70.2 million and \$57.7 million, respectively, representing 22%, 23% and 21%, respectively, of total revenue in those years. Rapid technological advances in software development, evolving standards in computer hardware and software technology, changing customer needs and frequent new product introductions and enhancements characterize the software markets in which we compete. We believe a significant level of research and development is required to achieve our strategic goals and to remain competitive. Even while we aim to manage costs in other areas of our business, we expect to continue to invest in, and commit substantial resources to, product development and engineering. In addition, our product development depends, in part, on licenses with third parties for technology that is incorporated into our products and we intend to continue this practice in the future to the extent we believe it is necessary or efficient for product development strategy.

### **Competition**

Our markets are intensely competitive. In the market for comprehensive software development solutions, we face competition from some of the largest software providers in the world, including IBM, Microsoft Corporation, Sun Microsystems, Inc., Hewlett-Packard Company, Computer Associates and others. We also compete with smaller software companies including Serena Software, Inc., Compuware Corporation and Telelogic AB. These companies currently provide or have stated they intend to provide more comprehensive enterprise software development and integration solutions. We attempt to differentiate our products and solutions from those of our competitors based on cross-platform interoperability, breadth of our ALM offering, integration with process improvement and skills/educational services, total cost of ownership, product quality, performance, and reliability. In the market for our individual IDE products, we face competition from the same companies above, as well as open source initiatives, and several smaller companies. We compete in these markets on cross-platform interoperability, ability to integrate with other products, price, product quality, product functionality, brand, distribution and reputation.

### **Manufacturing**

Our product development groups produce a set of master CD-ROMs or diskettes and documentation for our products, which are then released to manufacturing. All manufacturing and order fulfillment is performed by outside contractors under the supervision of Borland's logistics organization. This process includes replication of CD-ROMs or diskettes, printing and production of documentation and packaging materials and assembly of final product packages for shipment to customers. Our products are sold in CD-ROM or diskette format with attached user documentation or delivered directly to customers via electronic download. Borland believes adequate supplies and sources exist for the raw materials used in the manufacturing of our products.

### **Intellectual Property**

Our success depends upon our intellectual property. We rely on a combination of patents, copyrights, trademarks, and trade secret laws, as well as non-disclosure and other contractual agreements to protect our intellectual property. We currently have over 140 patents issued in the United States, which expire between 2010 and 2024.

### **Employees**

As of December 31, 2007, we employed 1,119 employees, of which 748 were engaged in selling, general and administrative functions and 371 were engaged in research and development. We have also employed temporary contractors in foreign countries and within the United States. To our knowledge, none of our U.S. employees is subject to a collective bargaining agreement or represented by a labor union and we have never experienced a work

stoppage. Employees of some of our foreign subsidiaries are represented by workers' councils or other similar organizations as required or permitted by local law. We believe relations with employees are generally good.

### Executive Officers

Our executive officers are appointed annually by our Board of Directors, or the Board, and serve at the discretion of the Board. Set forth below is certain information regarding our current executive officers:

| <u>Name</u>      | <u>Position</u>                                      | <u>Age</u> |
|------------------|--|------------|
| Tod Nielsen      | President, Chief Executive Officer and Director      | 42         |
| Erik E. Prusch   | Senior Vice President and Chief Financial Officer    | 41         |
| Gregory J. Wrenn | Senior Vice President, General Counsel and Secretary | 46         |
| David Packer     | Senior Vice President, Worldwide Field Operations    | 43         |
| Peter Morowski   | Senior Vice President, Research and Development      | 49         |

*Tod Nielsen.* Mr. Nielsen has served as President, Chief Executive Officer and director since November 2005. From June 2005 to November 2005, Mr. Nielsen served as Senior Vice President, Marketing and Global Sales Support for Oracle Corporation, an enterprise software company, where he was responsible for the marketing of the Oracle Database and Oracle Fusion Middleware product lines. From August 2001 to August 2004, Mr. Nielsen served in various positions, including Chief Marketing Officer and Executive Vice President, Engineering of BEA Systems, Inc., a provider of application infrastructure software. Mr. Nielsen joined BEA Systems after the acquisition of his private company, Crossgain, Inc., where he served as its Chief Executive Officer from June 2000 to August 2001. Mr. Nielsen currently serves on the board of directors of Fortify Software, Inc., a provider of software security products and Trolltech ASA, a provider of application development software. Mr. Nielsen holds a bachelor's degree in Business Administration from Central Washington University.

*Erik E. Prusch.* Mr. Prusch has served as Chief Financial Officer since November 2006. From January 2004 to November 2006, Mr. Prusch served as Vice President, Finance at Intuit, Inc., a provider of business and financial management software, in its Consumer Tax Group. From April 2001 to January 2004, Mr. Prusch served as Chief Financial Officer of Identix Incorporated, an identity solutions company. Mr. Prusch earned an MBA from the Stern School of Business at New York University and a bachelor's degree in economics from Yale University.

*Gregory J. Wrenn.* Mr. Wrenn has served as Senior Vice President, General Counsel and Secretary since October 2006. From November 2004 to October 2006, Mr. Wrenn was the Senior Vice President and General Counsel of Openwave Systems, Inc., a provider of software and related services for communications providers. From June 1999 to September 2004, Mr. Wrenn served as the Vice President, Deputy General Counsel, International of Yahoo! Inc., an internet company. Prior to Yahoo! Inc., Mr. Wrenn served as the Senior Corporate Counsel at Adobe Systems Incorporated, a software solutions company. Mr. Wrenn holds a JD from Boalt School of Law, University of California, Berkeley and a bachelor's degree from the University of Washington.

*David Packer.* Mr. Packer has served as Senior Vice President of Worldwide Field Operations since January 2007. From March 2005 to January 2007, Mr. Packer served as Vice President of field sales for the Americas. From September 2003 to March 2005, Mr. Packer served as the Vice President and Managing Director of the western region of PeopleSoft, Inc., an enterprise application software company. From February 1993 to September 2003, Mr. Packer was employed at JD Edwards & Company, an enterprise financial applications software company, where his most recent position was Vice President & General Manager for the western region. Mr. Packer holds a master's degree from the Massachusetts Institute of Technology and a bachelor's degree from Claremont McKenna College.

*Peter Morowski.* Mr. Morowski has served as Senior Vice President of Research and Development since August 2006. From December 2002 to July 2006, Mr. Morowski served as Vice President Software for Dell, Inc. and from March 2001 to November 2002, Mr. Morowski served as Vice President Enterprise Software for Dell, Inc., a direct computer systems company. Mr. Morowski served as Vice President and Chief Technology Officer of IBM/Tivoli Systems, Inc., a provider of systems management solutions, from February 2000 to February 2001. Mr. Morowski holds a bachelor's degree in Engineering from Illinois Institute of Technology.

## ITEM 1A. *RISK FACTORS*

### **Risks Relating to Our Business**

**We have limited experience in the enterprise market for application lifecycle management, or ALM, software solutions. If we are unable to successfully achieve our strategic goals, our operating results could be harmed.**

Since we are still in the early stages of focusing our business on Open ALM, and considering ALM is a relatively new and evolving market, it is difficult for us to predict our likelihood of success. There is a limited history upon which to base assumptions as to our probability of success and we are in the process of developing and implementing new products, solutions and sales and marketing strategies. The change in the primary focus of our business from IDE to Open ALM has involved significant changes in our go-to-market strategy, our sales and services organizations and sales cycles and our marketing strategies. If we are not able to successfully develop and implement our new strategies, our business and operating results will be harmed.

**Our success is dependent upon our ability to develop effective products which meet our customers' complex and evolving needs and to integrate our products into effective ALM solutions.**

We produce and sell a broad portfolio of products to manage the software development process. The market for these products is characterized by continuous technological advancement, evolving industry standards and changing customer requirements. Our customers use a wide variety of constantly changing hardware, software and operating platforms. While we plan to continue to invest resources to develop products for new or emerging software and hardware platforms in the server, desktop, mobile and other environments that may develop, there is a risk that a new hardware or software platform for which we do not provide products could rapidly grow in popularity. In particular, we believe that this risk is substantial for particular proprietary platforms and languages for which we may not be given economically feasible access or access at all. As a result, we may not be in a position to develop products for such platforms or may be late in doing so. If we fail to introduce new products that address the needs of emerging market segments or if our new products do not achieve market acceptance as a result of delays in development or other factors, our future growth and revenue opportunity could suffer.

A significant portion of our research and development focus is on integrating our existing and recently acquired products into cohesive ALM solutions. Managing our development activities as we gain experience in the evolving ALM market is complex and involves a number of risks. We may not be successful in designing and marketing new products, integrating products into cohesive solutions or providing the necessary enhancements or features to address the sophisticated and varied needs of our customers. To be successful in this market, we will also need to be able to compete with several large and well-established companies with more experience and resources.

**We may not be able to compete successfully against current and potential competitors.**

Our markets are intensely competitive. In the market for comprehensive software development solutions, we face competition from some of the largest software providers in the world. For example, IBM, Microsoft, Sun Microsystems, Hewlett-Packard, Computer Associates and others provide or have stated they intend to provide comprehensive enterprise software development and integration solutions. Traditionally, we have partnered with some of these competitors to offer a broader solution to their or our customer base; however, as our partners and business strategy change, a larger market overlap may develop and some or all of these partnering arrangements could be adversely affected or terminated. Most of these competitors have substantially greater financial, management, marketing and technical resources than we have. In addition, many of our competitors have well established relationships with our current and potential customers, extensive knowledge of the market, substantial experience in selling enterprise solutions, strong professional services and technical support offerings and extensive product development, sales and marketing resources. As a result of their greater resources and established relationships, these competitors may be more successful than we are at developing and marketing products and solutions in our markets.

In addition, the markets for our CodeGear products are characterized by rapid change, new and emerging technologies, and aggressive competition. Some of our competitors include IBM, Microsoft and Sun Microsystems. We attempt to differentiate our products from those of our competitors based on interoperability, total cost of ownership, product quality, performance, level of integration and reliability. We may be unable to successfully differentiate our products from those of our competitors, or we may be unable to compete with the substantially greater resources many of our competitors have. If so, our business, results of operations and financial condition may suffer.

**Our inability to forecast our revenue pipeline or convert revenue pipeline into contracts, especially given our focus on enterprise customers, could increase fluctuations in our revenue and financial results.**

We use a “pipeline” system, a common industry practice, to forecast sales and trends in our ALM business. Our sales personnel monitor the status of all potential transactions, including the estimated closing date and potential dollar amount of each transaction. We aggregate these estimates periodically to generate a sales pipeline and then evaluate the pipeline to identify trends in our business. This pipeline analysis and related estimates of revenue may differ significantly from actual revenues in a particular reporting period. When customers delay purchasing decisions, reduce the amount of their purchases or cancel their purchases altogether, it will reduce the rate of conversion of the pipeline into contracts and our revenues will be harmed. In addition, because a substantial portion of our software license contracts close in the latter part of a quarter, we may not be able to adjust our cost structure to respond to a variation in the conversion of the pipeline into contracts in a timely manner. Our inability to respond to a variation in the pipeline or in the conversion of the pipeline into contracts in a timely manner, or at all, could cause us to plan or budget inaccurately and thereby could adversely affect our results of operations and financial condition.

A significant portion of our business involves licenses of our software that are made directly to large enterprises. These large transactions involve multiple elements and tend to be lengthy and unpredictable. Sales to enterprise customers generally require substantial time, effort and money as we aim to establish relationships and educate them about our solutions. Also, sales to enterprise customers generally require an extensive sales effort throughout many levels within the customer’s organization and often require final approval by several layers of the customer’s executives. These factors substantially extend the sales cycle and increase the uncertainty of whether a sale will be made in any particular quarter, or at all. We have experienced and expect to continue to experience delays and uncertainties in our sales cycles as well as increased up-front expenses in connection with our enterprise sales efforts. The timing of the execution of enterprise volume licenses could cause our results of operations to vary significantly from quarter to quarter, especially when we anticipate certain transactions will close in a particular quarter. Further, industry buying patterns suggest that larger transactions are frequently deferred until later in the quarter, creating increased difficulty in quarterly forecasting. If a sale is never completed despite months or even years of selling efforts, we will have expended substantial time, money and resources during the pre-sales effort without generating any revenue to offset these expenses. Finally, due to the complexity and time commitment necessary to pursue each of these transactions, we focus on a small number of proposed sales at any time and if we fail to complete any of these sales, our business, results of operations and financial condition would be negatively affected.

**The complexity of accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could limit our ability to predict our revenue and materially affect our financial results for a given period.**

Although we use standardized agreements designed to meet current revenue recognition criteria under generally accepted accounting principles, we must often negotiate and revise terms and conditions of these standardized agreements, particularly in multi-product license and services transactions. As our transactions have increased in complexity, particularly with the sale of larger, multi-product licenses, negotiation of mutually acceptable terms and conditions may require us to defer recognition of revenue on such licenses. We believe that we are in compliance with Statement of Position 97-2, “*Software Revenue Recognition*,” as amended; however, more complex, multi-product license transactions require additional accounting analysis to account for them accurately. Errors in such analysis in any period could lead to unanticipated changes in our revenue accounting practices and

may affect the timing of revenue recognition, which could adversely affect our financial results for any given period. If we discover that we have interpreted and applied revenue recognition rules differently than prescribed by generally accepted accounting principles in the U.S, we could be required to devote significant management resources, and incur the expense associated with an audit, restatement or other examination of our financial statements.

**Our failure to implement systems to meet the requirements and manage the large service projects necessary for our enterprise may result in delays in recognizing revenue on these projects and thus could harm our profit and adversely affect our results of operations.**

Our enterprise business focuses on large, complex professional services agreements. Our inability to structure and manage services agreements may result in unanticipated changes to the timing of our services revenue. In addition, if we bundle services together with our license agreements, this may also affect the timing of recognizing our license revenue. We may need to implement new systems or upgrade current systems to manage these large, complex services agreements. If we fail to make appropriate changes to our existing systems or if our services agreements lead to unanticipated changes to the timing of revenue recognition, our results of operations could be harmed.

**We have recently undergone significant changes to our financial reporting and accounting team and systems and are still in the process of making changes to these systems in international regions, which may impact our ability to comply with our financial reporting and accounting obligations.**

In October 2007, we moved our corporate headquarters from Cupertino, CA to Austin, TX and in connection with this move, we transitioned a significant portion of our finance team. While we planned for an orderly transition, our new hires have a limited history working together as a part of our accounting team. We also recently began to build an internal audit team, in conjunction with reducing our reliance upon consultants to assess our internal controls over financial reporting. In addition, we recently changed our financial reporting systems in the United States and are continuing to implement changes in our international regions. While we have taken measures aimed at protecting data and keeping accurate records, there can be no assurance the transition will be done without causing errors, delays or inefficiencies. If we fail to staff our accounting and finance function adequately or maintain adequate internal control over financial reporting, we may be unable to report our financial results accurately or in a timely manner and our business, results of operations and financial condition may suffer.

**We are in the process of implementing plans for reducing expenses and if we fail to achieve the results we expect, there will be a negative effect on our financial condition.**

We announced restructuring plans during 2007, which included the consolidation of certain office locations, reductions in capital expenditures, reduction in discretionary spending, reduction in the work force and other cost cutting measures. We may not be able to realize the cost savings we anticipate from these measures. For example, we may not be able to exit facilities with long term leases. If we are not able to implement these measures as planned, further cost reduction efforts may be necessary. Our plans to reduce expenses may not be completed in a timely manner, which would impair our goal to achieve profitability and positive cash flow. In addition, although we are aiming to implement plans to reach sustainable profitability in the second half of 2008, we are currently operating at a net loss and there can be no assurance as to when we will return to profitability, if at all. In order to fund our ongoing operations in future periods it will be necessary for us to achieve profitability.

**We and our independent registered public accounting firm, previously determined that we had a material weakness in our internal control over financial reporting. There can be no assurance that a material weakness will not arise in the future. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.**

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal control over financial reporting. In our Annual Reports on Form 10-K for the years ended December 31, 2005 and 2006, respectively, we reported material weaknesses in our internal control over financial reporting. We have since remediated these deficiencies and continue to spend a significant amount of time

and resources to ensure compliance with Section 404 of the Sarbanes-Oxley Act of 2002. As reported in Section 9A of this Form 10-K, our management does not believe we had any material weakness in our internal control over financial reporting as of December 31, 2007. However, considering that we have and will continue to evolve our business in a changing marketplace, we are continuing to implement changes in our ERP systems and will continue to make corresponding changes in our internal control in financial reporting, there can be no assurance that material weaknesses or significant deficiencies will not arise in the future.

Should we or our independent registered public accounting firm, determine in future fiscal periods that we have a material weakness in our internal control over financial reporting, the reliability of our financial reports may be impacted, and our results of operations or financial condition may be harmed and the price of our common stock may decline.

**In prior periods, we were unable to timely file our annual and quarterly reports as required by the Securities Exchange Act of 1934, and our continued inability to file these reports on time could result in your not having access to important information about us and the delisting of our common stock from the Nasdaq Stock Market.**

We were late in filing our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and our Quarterly Reports on Forms 10-Q for the fiscal quarters ended March 31, 2006, June 30, 2006, and September 30, 2006. As a result, during the periods in which these reports were late, we were not in compliance with the continued listing requirements of the Nasdaq Stock Market and, in some cases, with the SEC's rules and regulations under the Securities Exchange Act of 1934. We are required to comply with these rules as a condition of the continued listing of our stock on the Nasdaq Stock Market.

Although we are not currently late with respect to any annual or quarterly report, there can be no assurance that we will be able to file all such reports in the future in a timely manner. If we are unable to timely file these reports in the future, it may impede your access to important information about us. This could cause us to incur substantial expenses, including an increase in the interest rate under our Convertible Senior Notes offering, issued in February 2007. Further, in the case of a prolonged delay in filing, our common stock could be delisted from the Nasdaq Stock Market. Delisting could result in our common stock no longer being traded on any securities exchange or over-the-counter market and could impact its liquidity and price. In addition, if we were delisted, we would be in default under the senior convertible notes, which would cause the notes to become immediately due and payable.

**If we are unable to maintain revenue levels for our deployment, or application middleware, products, our financial results may be harmed.**

We currently have a portion of our revenue attributable to our deployment products, which we also call or application middleware products. These products are mature products and we primarily rely on new sales to existing customers, maintenance agreements with existing customers, compliance purchases through customer audits and sales through existing independent software vendors and original equipment manufacturers' partners to generate revenue. We have experienced weakness and fluctuations in revenue from these products in the past and believe they will continue to be subject to commoditization. Our deployment products are generally based on older standards and technologies, which are used in a decreasing number of industries, networks and applications. We devote little marketing resources to these products and primarily rely on the effectiveness of the sales force and compliance teams to work with customers and partners to generate sales. There have been many changes in the sales force over the past several quarters, especially in Europe where we have historically generated a significant amount of revenue from our deployment products. If we are unable to maintain effective sales programs for our deployment products, or if existing customers migrate away from our deployment products, our business, results of operations and financial condition could suffer.

**Because competition for qualified technical and management personnel is intense, we may not be able to recruit or retain qualified personnel, which could harm our business.**

We believe our ability to successfully manage and grow our business and to develop new products depends, in large part, on our ability to recruit and retain qualified employees, particularly highly skilled software engineers,

sales personnel and management personnel. Competition for qualified technical and management personnel is intense and in the past some of our competitors have utilized their greater resources to provide substantial signing bonuses and other inducements to lure key personnel away from us. We have implemented various cost cutting efforts, which makes it challenging to retain key people and recruit new talent, as needed.

**Consolidation in our industry or fluctuation in our stock price may impede our ability to compete effectively.**

Consolidation continues to occur among companies that compete in our markets. Additionally, some of the largest software and hardware providers in the world have sought to expand their software and services offerings through acquisitions in the software development, deployment and integration space. If large providers, who have significantly greater financial, management, marketing and technical resources than we have, are successful in increasing their offerings in the software development market, our business will be subject to significant pressure and our ability to compete effectively harmed. Additionally, changes resulting from these and other consolidations may harm our competitive position, particularly as certain products, when offered as part of a bundled suite, are offered for free or are given away to sell more hardware, infrastructure components or information technology services.

As the trend toward consolidation continues, we may encounter increased competition for attractive acquisition targets and may have to pay higher prices for those businesses or technologies we seek to acquire. In addition, we have seen a recent decline in our stock price, which will in turn make it more difficult for us to use stock as a currency for the acquisition of strategic businesses or technologies. This will put pressure on our ability to seek out potential acquisition targets which may impede our growth and our ability to compete effectively.

**We depend on technologies licensed to us by third parties, such as Sun Microsystems and Microsoft, and the loss of or inability to maintain these licenses could prevent or delay sales or shipments of certain of our products.**

We depend on licenses from third-party suppliers for some elements of our products such as various file libraries. In particular, we depend on technology licenses from Sun Microsystems for certain of our Java products, and we depend on licenses from Microsoft for our Delphi, C++, C#Builder and Borland Developer Studio products. If any of these licenses or other third-party licenses were terminated or were not renewed, or if these third-parties failed to notify us in a timely manner of any new or updated technology, we might not be able to ship such products as planned or provide support for such products, including upgrades. We would then have to seek an alternative to the third-party's technology and, in some cases, an alternative may not exist. This could result in delays in releasing and/or shipping our products, increased costs by having to secure unfavorable royalty arrangements or reduced functionality of our products, which in turn could adversely affect our business, results of operations and financial condition.

**Failure to manage our international operations could harm our results.**

A substantial portion of our revenues are generated from international sales. In addition, a significant portion of our operations consist of activities outside the United States. We now have research and development facilities in several domestic and international locations, and we currently have a direct sales force in approximately eighteen countries around the world. We have a complicated corporate structure, and historically have had geographically dispersed operational controls. In particular, we rely on personnel in our international locations to properly account for and manage our international operations, which introduce inherent difficulties in management and control. Given this, we have and may continue to experience difficulty in efficiently and effectively managing our dispersed and complicated organization. As a result, our results of operations may suffer. In addition, we are subject to other risks inherent in doing business internationally, including:

- fluctuations in foreign currency exchange rates;
- the difficulty of staffing and managing an organization spread over various countries and continents;

- potentially reduced or less certain protection for intellectual property rights than is available under the laws of the United States;
- longer payment cycles in some countries and greater difficulty in collecting accounts receivable;
- restrictions on the expatriation of currency;
- foreign taxes, export restrictions, tariffs, duties and other trade barriers;
- changes in regulatory requirements and resulting costs;
- differing cultures and business practices not consistent with our regulatory obligations in the United States;
- compliance with various conflicting laws and regulations, including employment laws, and resulting costs; and
- war, threats of war, terrorist activity or political or economic instability in certain parts of the world.

One or more of these risks could harm our future research operations and international sales. If we are unable to manage these risks of doing business internationally, our business, results of operations and financial condition could suffer.

**Bundling arrangements or product give-aways by our competitors, including available, cost-free development technologies, may diminish demand for our products or pressure us to reduce our prices.**

Some of our competitors, particularly those that are primarily hardware vendors or platform providers, generate a substantially greater proportion of their sales in markets in which we do not directly compete. We believe a number of these competitors view sales of software application lifecycle technologies as important to enhancing the functionality and demand for their core products. As a result, these companies often bundle software products that compete with our offerings, with products such as application servers, work stations, personal computers, operating systems databases and information technology services. When competitors do so, the effective price for their software products that compete with our software development platform/solutions are often heavily discounted or offered at no charge. This has required us to reduce the price of our products and related services in certain circumstances, sometimes to no avail. Similarly, industry alliances and arrangements exist or may be formed in the future under which our competitors ally with companies in markets in which we do not compete to bundle products. These arrangements may also result in lower effective prices for our competitors' products than for our products, putting pressure on our business and diminishing our competitive position.

**Our future success depends upon enhancing existing relationships and establishing new technology alliances.**

The market for enterprise software application development and deployment solutions is broad, and our products and solutions must integrate with a wide variety of technologies. To be successful, we must continue to establish and enhance strategic alliances with a wide variety of companies in the software development ecosystem. Many of these companies have competitive products or have stated a desire to move broadly into the software development lifecycle space. In addition, many of these companies are competitive with one another and approach partnering with us cautiously. This has made it difficult in some cases to establish or enhance desired relationships or achieve intended objectives. We currently have a number of important strategic alliances and technology relationships with industry leaders. Where we have established working relationships, our allies may choose to terminate their arrangements with us where no binding contractual arrangements exist. The failure to develop or maintain our strategic alliances and technology relationships or our allies' decision to opt out of their arrangements with us may impede our ability to introduce new products or enter new markets, and consequently harm our business, results of operations and financial condition.

**Our products may contain unknown defects that could result in a loss of revenues, decreased market acceptance, injury to our reputation and product liability claims.**

Software products occasionally contain errors or defects, especially when they are first introduced or when new versions are released. We cannot be certain that our products are currently or will be completely free of defects and errors. We could lose revenue as a result of product defects or errors, including defects contained in third-party products that enable our products to work. In addition, the discovery of a defect or error in a new version or product may result in the following consequences, among others:

- delayed shipping of the product;
- delay in or failure to ever achieve market acceptance;
- diversion of development resources;
- damage to our reputation;
- product liability claims; and
- increased service and warranty costs.

We believe our ALM products are critical to our customers and a defect or error in our products could result in a significant disruption to their businesses. Due to the nature of our complex solutions, there is also the risk that our current products will not prove scalable without substantial effort. If we are unable to develop products that are free of defects or errors or if our products are not able to scale across an enterprise or are perceived to be too complex to scale across an enterprise, our business, results of operations and financial condition could be harmed.

**Third-party claims of intellectual property infringement may subject us to costly litigation or settlement terms or limit the sales of our products.**

From time to time, we receive notices claiming that we have infringed a third-party's patent or other intellectual property right. We expect that software products in general will increasingly be subject to these claims as the number of products and competitors increase, the functionality of products overlap and as the patenting of software functionality becomes more widespread. Further, the receipt of a notice alleging infringement may require in some situations a costly opinion of counsel to prevent an allegation of intentional infringement. Regardless of its merits, responding to any claim can be time consuming and costly and divert the efforts of our technical and management personnel. In the event of a successful claim against us, we may be required to pay significant monetary damages, including treble damages if we are held to have willfully infringed, discontinue the use and sale of the infringing products, expend significant resources to develop non-infringing technology and/or enter into royalty and licensing agreements that might not be offered or be available on acceptable terms. If a successful claim was made against us and we failed to commercially develop or license a substitute technology, our business, results of operations and financial condition could be harmed. In addition, we may not have insurance coverage for these types of claims or our insurance coverage for these types of claims may not be adequate.

**If we are unable to protect our intellectual property, we may lose valuable assets.**

As a software company, our intellectual property rights are among our most valuable assets. We rely on a combination of patent, copyright, trademark, trade secrets, confidentiality agreements and other contractual arrangements and other methods to protect our intellectual property rights, but these measures may provide only limited protection. The protective steps we have taken may be inadequate to deter misappropriations of our intellectual property rights. In addition, it may be possible for an unauthorized third-party to reverse-engineer or decompile our software products. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, particularly in certain international markets, making misappropriation of our intellectual property more likely. Litigation may be necessary to protect our intellectual property rights, and such litigation can be time consuming and expensive.

**Our debt obligations expose us to risks that could adversely affect our business, operating results and financial condition.**

In February 2007, we issued an aggregate principal amount of \$200,000,000 in 2.75% Convertible Senior Notes due in 2012. The level of our indebtedness, among other things, could:

- require us to dedicate a portion of our expected cash flow or our existing cash to service our indebtedness, which would reduce the amount of our cash available for other purposes, including working capital, capital expenditures and research and development expenditures;
- make it difficult for us to incur additional debt or obtain any necessary financing in the future for working capital, capital expenditures, debt service, acquisitions or general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our business;
- limit our ability to sell ourselves or engage in other strategic transactions;
- make us more vulnerable in the event of a downturn in our business; or
- place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

If we experience a decline in revenue due to any of the factors described in this section entitled “Risk Factors,” or otherwise, we could have difficulty paying amounts due on our indebtedness. Although the convertible senior notes mature in 2012, the holders of the convertible senior notes may require us to repurchase their notes prior to maturity under certain circumstances, including specified fundamental changes such as the sale of a majority of the voting power of the company. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of the convertible senior notes, we would be in default, which would permit the holders of our indebtedness to accelerate the maturity of the indebtedness and could cause defaults under any other indebtedness that we may have outstanding at such time. Any default under our indebtedness could have a material adverse effect on our business, operating results and financial condition.

**Conversion of the convertible senior notes will dilute the ownership interests of existing stockholders.**

The terms of the convertible senior notes permit the holders to convert the notes into shares of our common stock. The convertible senior notes are convertible into our common stock initially at a conversion price of \$6.38 per share, which would result in an aggregate of approximately 31.4 million shares of our common stock being issued upon conversion, subject to adjustment upon the occurrence of specified events, provided that the total number of shares of common stock issuable upon conversion, as may be adjusted for fundamental changes or otherwise, may not exceed approximately 39.2 million shares. The conversion of some or all of the convertible senior notes will dilute the ownership interest of our existing stockholders. Any sales in the public market of the common stock issuable upon conversion could adversely affect prevailing market prices of our common stock.

Each \$1,000 of principal of the convertible senior notes is initially convertible into 156.86 shares of our common stock, subject to adjustment upon the occurrence of specified events. However we may seek to obtain stockholder approval to settle conversions of the notes in cash and shares of common stock, which approval would require the vote of a majority of shares of our common stock at a stockholder meeting duly called and convened in accordance with our organizational documents, applicable law and the rules of the Nasdaq Stock Market.

In addition, holders may convert their convertible senior notes prior to maturity if: (1) the price of our common stock reaches \$8.29 during specific periods of time, (2) specified corporate transactions occur or (3) the trading price of the notes falls below a certain threshold. As a result, although the convertible senior notes mature in 2012, the holders may require us to convert the notes prior to maturity. As of the date this Annual Report on Form 10-K was filed with the Securities and Exchange Commission, none of the conditions allowing holders of the notes to convert had occurred.

**Under the terms of the 2.75% Convertible Senior Notes due 2012, events that we do not control may trigger conversion rights that, if exercised, may have an adverse effect on our liquidity.**

Holders of our convertible senior notes due 2012 will have the right to require us to repurchase the notes upon the occurrence of a fundamental change of Borland, including some types of change of control transactions. We may not have sufficient funds to repurchase the notes in cash or to make the required repayment at such time or have the ability to arrange necessary financing on acceptable terms. In addition, upon conversion of the notes, if we have received approval from our stockholders to settle conversions of the notes in cash and shares of our common stock, we will be required to make cash payments to the holders of the notes equal to the lesser of the principal amount of the notes being converted and the conversion value of those notes. Such payments could be significant, and we may not have sufficient funds to make them at such time. Our failure to repurchase the notes or pay cash in respect of conversions when required would result in an event of default.

**Our rights plan and our ability to issue additional preferred stock could harm the rights of our common stockholders.**

In October 2001, we adopted our stockholder rights plan and currently each share of our outstanding common stock is associated with one right. Each right entitles the registered stockholder to purchase 1/1,000 of a share of our Series D Junior Participating Preferred Stock at an exercise price of \$80.00.

The rights only become exercisable in certain limited circumstances following the tenth day after a person or group announces acquisition of or tender offers for 15% or more of our common stock. For a limited period of time following the announcement of any such acquisition or offer, the rights are redeemable by us at a price of \$0.01 per right. If the rights are not redeemed, each right will then entitle the holder to purchase common stock having the value of twice the then-current exercise price. For a limited period of time after the exercisability of the rights, each right, at the discretion of our board of directors, may be exchanged for either 1/1,000 share of Series D Junior Participating Preferred Stock or one share of common stock. The rights expire on December 19, 2011.

Pursuant to our restated certificate of incorporation, our board of directors has the authority to issue up to 850,000 shares of undesignated preferred stock and to determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued shares of undesignated preferred stock and to fix the number of shares constituting any series and the designation of such series, without the consent of our stockholders. The preferred stock could be issued with voting, liquidation, dividend and other rights superior to those of the holders of common stock.

The issuance of Series D Junior Participating Preferred Stock or any preferred stock subsequently issued by our board of directors, under some circumstances, could have the effect of delaying, deferring or preventing a change in control. For example, an issuance of shares of our preferred stock could:

- adversely affect the voting power of the stockholders of our common stock;
- make it more difficult for a third-party to gain control of us;
- discourage bids for our common stock at a premium;
- limit or eliminate any payments the stockholders of our common stock could expect to receive upon our liquidation; or
- otherwise adversely affect the market price of our common stock.

Specifically, some provisions may deter tender offers for shares of common stock, which may be attractive to stockholders, or deter purchases of large blocks of common stock, thereby limiting the opportunity for stockholders to receive a premium for their shares of common stock over the then-prevailing market prices.

**Provisions of our certificate of incorporation and bylaws might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.**

Our certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that our stockholders may deem advantageous. These provisions:

- authorize the issuance of “blank check” preferred stock by our board that could increase the number of outstanding shares and discourage a takeover attempt;
- limit the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that our board is expressly authorized to amend our bylaws, or enact such other bylaws as in their judgment may be advisable; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, certain of our named executive officers and certain other executives have entered into change of control severance agreements, which were approved by our compensation committee. These agreements would likely increase the costs that an acquirer would face in purchasing us and may thereby act to discourage such a purchase.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The following table sets forth the location, approximate square footage and use of each of the principal properties we lease or sublease as of December 31, 2007:

| <u>Location</u>   | <u>Approximate<br/>Square<br/>Footage</u> | <u>Use</u>   |
|---|---|--|
| Scotts Valley, California — Enterprise Way<br>Cupertino, California | 149,627                                   | Sales, general and administrative and<br>research and development                            |
| Atlanta, Georgia  | 85,247                                    | Sales, general and administrative<br>Sales, customer support and research<br>and development |
| Austin, Texas   | 39,839                                    | Corporate headquarters, sales, general<br>and administrative and research and<br>development |
| Singapore   | 33,979                                    | Sales, general and administrative and<br>research and development                            |
| Santa Ana, California   | 27,051                                    | Sales, research and development  |
| Linz, Austria   | 21,622                                    | Research and development   |
| Frankfurt, Germany  | 17,776                                    | Sales, general and administrative  |
| Amstelveen, the Netherlands   | 17,367                                    | Sales, customer support  |
| Twyford, United Kingdom   | 14,983                                    | Sales, general and administrative  |
| Belfast, Northern Ireland   | 13,956                                    | Technical support  |
| Paris, France   | 13,097                                    | Sales, general and administrative  |
|   | 10,652                                    |  |

We lease or sublease all of these properties. The leases expire at various times through 2021.

We lease office space in other cities in the United States as well as in Europe, Canada, Brazil and various countries in Asia. Our existing facilities are adequate to meet our current and projected needs. We lease approximately 367,000 square feet of office space worldwide, net of subleasing and restructuring activities and our leased space is split between two operating segments, Enterprise of approximately 309,000 square feet and CodeGear of approximately 58,000 square feet.

We presently have excess facilities under lease, and we are actively negotiating the sublease for some of these lease commitments as part of our restructuring plans we put in place in 2006 and 2007, which are discussed under Part II Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may be involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. In accordance with Statement of Financial Accounting Standards No. 5, "*Accounting for Contingencies*" we record a liability when we believe it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These accruals are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable; however, we believe that we have valid defenses with respect to the legal matters pending against us, as well as adequate accruals for any probable and estimable losses. If an unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations for that period. We believe that, except as described above, given our current liquidity and cash and investment balances, even were we to receive an adverse judgment with respect to litigation that we are currently a party to, it is likely that such a judgment would not have a material impact on our financial condition, results of operations or liquidity.

From time to time, we receive notices from third parties claiming infringement by our products of third-party patent, trademark and other intellectual property rights, disputing royalties, or disputing other commercial arrangements. Regardless of the merit of any such claim, responding to these claims could be time consuming and expensive, and may require us to enter into licensing or royalty agreements which may not be offered or available on terms acceptable to us. If a successful claim is made against us, our business could be materially and adversely affected. We expect that our software products will increasingly be subject to such claims as the number of products and competitors in our industry segment increases, the functionality of products overlap and industry participants become more aggressive in using patents offensively.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our stockholders, through a solicitation of proxies or otherwise, during the fourth quarter of fiscal 2007.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the Nasdaq Stock Market under the symbol "BORL." According to the records of our transfer agent and registrar, Mellon Investor Services, L.L.C., we had 2210 stockholders of record of our common stock as of February 29, 2008. We do not currently pay cash dividends. We intend to retain future earnings for use in our business, and therefore, do not anticipate paying cash dividends in the foreseeable future.

## [Table of Contents](#)

The following table sets forth the high and low closing price per share of our common stock as reported on the Nasdaq Stock Market for the periods presented below:

|                    | <u>High</u> | <u>Low</u> |
|--------------------|-------------|------------|
| <b>Fiscal 2006</b> |             |            |
| First Quarter      | \$ 6.77     | \$ 5.15    |
| Second Quarter     | \$ 5.54     | \$ 4.91    |
| Third Quarter      | \$ 6.00     | \$ 5.07    |
| Fourth Quarter     | \$ 6.15     | \$ 5.05    |
| Fiscal Year        | \$ 6.77     | \$ 4.91    |
| <b>Fiscal 2007</b> |             |            |
| First Quarter      | \$ 5.50     | \$ 4.89    |
| Second Quarter     | \$ 6.20     | \$ 5.32    |
| Third Quarter      | \$ 6.03     | \$ 4.31    |
| Fourth Quarter     | \$ 4.49     | \$ 2.75    |
| Fiscal Year        | \$ 6.20     | \$ 2.75    |

As of March 3, 2008, the most recent practicable date prior to the filing of this Form 10-K, the closing sale price of a share of our common stock was \$1.87.

### **Purchases of Equity Securities**

#### ***Discretionary Stock Repurchase Program***

In September 2001, our Board of Directors authorized the use of up to \$30 million to repurchase shares of our outstanding common stock under a discretionary stock repurchase program (the "Discretionary Program"). In February 2004 and May 2005, our Board of Directors authorized an additional \$30 million and \$75 million, respectively, under this program bringing the total discretionary stock repurchase authorizations to \$135 million.

During the year ended December 31, 2005, we repurchased 4,971,800 shares of common stock at an average price of \$6.62 per share for an aggregate cost of \$32.9 million. During the year ended December 31, 2004, we repurchased 1,768,200 shares of common stock at an average price of \$8.75 per share for an aggregate cost of \$15.5 million.

No shares were repurchased through our Discretionary Program during the years ended December 31, 2007 and 2006. The Discretionary Program is currently in effect and at December 31, 2007, \$59.3 million remains authorized for future repurchases. In connection with the Convertible Senior Notes offering in February 2007, we repurchased 5,883,000 shares of our common stock for \$30.0 million.

[Table of Contents](#)

The shares shown as repurchased in the table below were surrendered by Borland employees in order to meet tax withholding obligations in connection with the vesting of an installment of their restricted stock awards. Below is a summary of these transactions for the three months ended December 31, 2007:

**PURCHASES OF EQUITY SECURITIES**

| <u>Period</u>  | <u>Total<br/>Number<br/>of Shares<br/>(or Units)<br/>Purchased</u> | <u>Average<br/>Price Paid<br/>per Share<br/>(or Unit)</u> | <u>Total Number<br/>of Shares (or<br/>Units) Purchased<br/>as Part of Publicly<br/>Announced Plans<br/>or Programs</u> | <u>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value)<br/>of Shares (or<br/>Units) that May<br/>Yet Be Purchased<br/>Under the Plans<br/>or Programs(1)</u> |
|--|--|---|--|---|
| Beginning dollar value available to be repurchased as of September 30, 2007                                |  |   |  | \$ 59,332   |
| October 1, 2007 - October 31, 2007(2)  | 21,062   | \$ 4.20   | —  | —   |
| November 1, 2007 - November 30, 2007(2)  | 16,126   | \$ 3.38   | —  | —   |
| December 1, 2007 - December 31, 2007(2)  | 1,868  | \$ 3.21   | —  | —   |
| <b>Total shares repurchased</b>  | <b>39,056</b>  | <b>\$ 3.81</b>  | <b>—</b>   | <b>\$ 59,332</b>  |
| Ending dollar value available to be repurchased under the Discretionary Program as of December 31, 2007(1) |  |   |  | \$ 59,332   |

- (1) In September 2001, our Board of Directors authorized the use of up to \$30 million to repurchase shares of our outstanding common stock under a discretionary stock repurchase program (“Discretionary Program”). In February 2004, our Board of Directors authorized an additional \$30 million of repurchases under the Discretionary Program, which was announced in our Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, on February 4, 2004. In May 2005, our Board of Directors authorized an additional \$75 million of repurchases under the Discretionary Program, which was announced in our Current Report on Form 8-K filed with the SEC on May 20, 2005. No shares were repurchased through our Discretionary Program during the three months ended December 31, 2007.
- (2) Consists of shares of restricted stock surrendered by Borland employees in order to meet tax withholding obligations in connection with the vesting of an installment of their restricted stock awards.

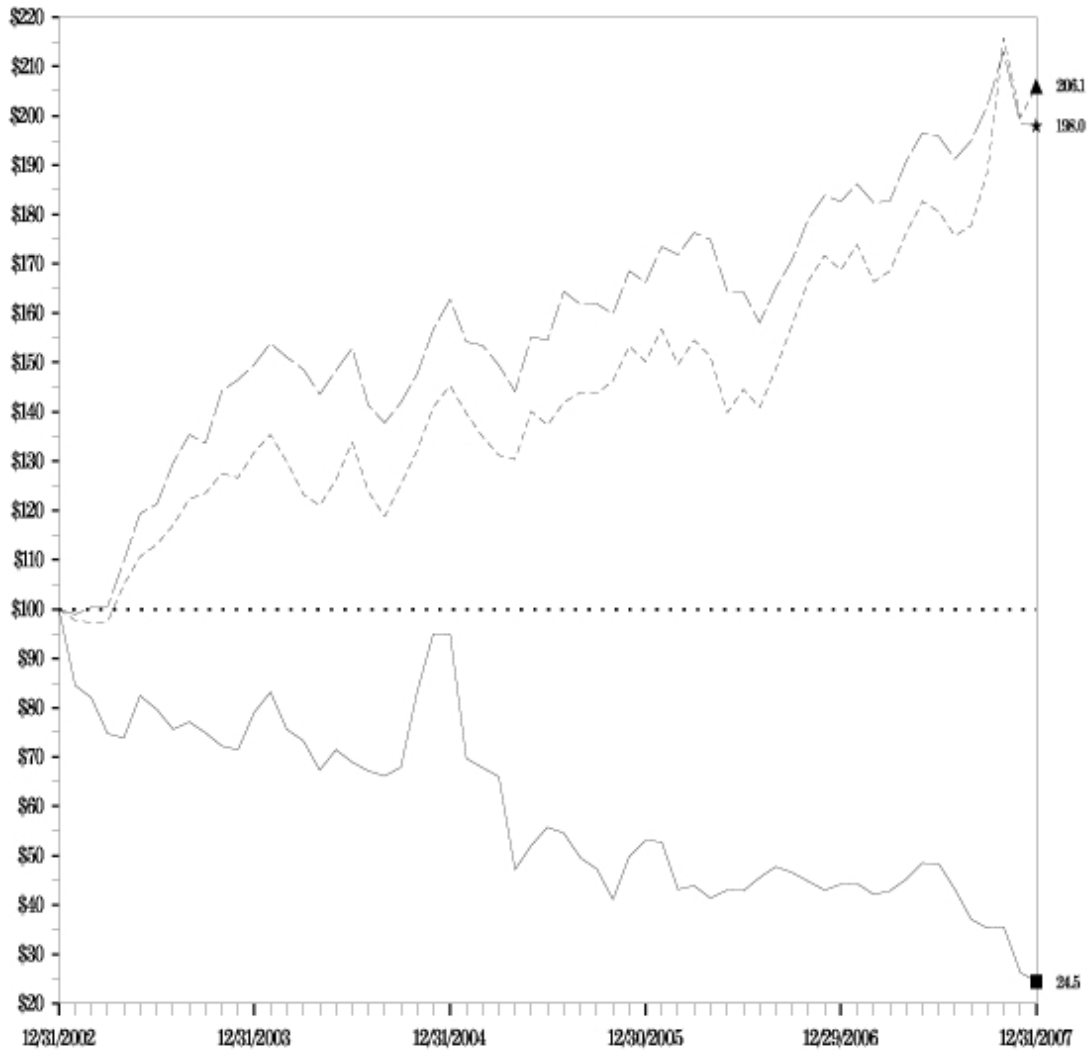
**10b5-1 Repurchase Program**

In August 2003, our Board of Directors authorized a 10b5-1 stock repurchase program whereby up to 1,000,000 shares or \$15 million worth of our outstanding common stock, whichever comes first, may be repurchased with a per day trading limit of 2,000 shares. The program was announced in our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 7, 2003. The 10b5-1 Program expired during the third quarter of 2005 when the accumulated total number of shares repurchased under the program reached its authorized maximum of 1,000,000 shares. No shares were repurchased through our 10b5-1 Program during the year ended December 31, 2007. During the year ended December 31, 2005, we repurchased 298,000 shares at an average price of \$7.42 per share for total consideration of \$2.2 million.

**EQUITY COMPENSATION PLAN INFORMATION**

The information required under Item 201(d) of Regulation S-K (17 CFR 229.201) is incorporated herein by reference to the information contained in the section captioned “Equity Compensation Plan Information” in the Proxy Statement.

**PERFORMANCE GRAPH**



| <b>Legend</b> |   | <u>12/2002</u> | <u>12/2003</u> | <u>12/2004</u> | <u>12/2005</u> | <u>12/2006</u> | <u>12/2007</u> |
|---------------|---|----------------|----------------|----------------|----------------|----------------|----------------|
| <u>Symbol</u> | <u>CRSP Total Returns Index for:</u>                                  |                |                |                |                |                |                |
| —■—           | Borland Software Corporation  | 100.0          | 79.1           | 95.0           | 53.1           | 44.2           | 24.5           |
| —*—           | Nasdaq Stock Market (US Companies)                                    | 100.0          | 149.5          | 162.7          | 166.2          | 182.6          | 198.0          |
| —▲—           | Nasdaq Computer and Data Processing Stocks SIC 7370-7379 US & Foreign | 100.0          | 131.8          | 145.3          | 150.2          | 168.7          | 206.1          |

**Notes:**

- The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- The indexes are reweighted daily, using the market capitalization on the previous trading day.
- If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- The index level for all series was set to \$100.0 on 12/31/2002.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data are derived from our consolidated financial statements. Historical results should not be taken as indicative of the results that may be expected for any future period. This data should be read in conjunction with our consolidated financial statements and related notes, which are included elsewhere in this Form 10-K.

**Five Year Summary**

|   | Fiscal Year |             |             |            |             |
|---|-------------|-------------|-------------|------------|-------------|
|   | 2007        | 2006        | 2005        | 2004       | 2003        |
| (In thousands, except per share data)   |             |             |             |            |             |
| <b>Selected Consolidated Statements of Operations Data</b>  |             |             |             |            |             |
| Total revenues  | \$ 268,781  | \$ 304,660  | \$ 276,743  | \$ 309,548 | \$ 295,236  |
| Restructuring, amortization of other intangibles, acquisition-related expenses and other charges(a) | \$ 13,934   | \$ 22,073   | \$ 20,611   | \$ 9,841   | \$ 32,758   |
| Impairment of goodwill(b)   | \$ 26,509   | \$ —        | \$ —        | \$ —       | \$ —        |
| Operating income (loss)   | \$ (61,040) | \$ (53,093) | \$ (34,975) | \$ 18,674  | \$ (39,934) |
| Other income (charge) items(c)  | \$ —        | \$ 1,658    | \$ 4,372    | \$ —       | \$ 500      |
| Net income (loss)   | \$ (61,673) | \$ (51,953) | \$ (29,832) | \$ 11,370  | \$ (40,544) |
| Net income (loss) per share — basic   | \$ (0.85)   | \$ (0.67)   | \$ (0.38)   | \$ 0.14    | \$ (0.51)   |
| Net income (loss) per share — diluted   | \$ (0.85)   | \$ (0.67)   | \$ (0.38)   | \$ 0.14    | \$ (0.51)   |
| Shares used in computing basic income (loss) per share  | 72,875      | 77,096      | 77,557      | 80,425     | 80,249      |
| Shares used in computing basic income (loss) per share  | 72,875      | 77,096      | 77,557      | 82,052     | 80,249      |

|   | Fiscal Year |            |            |            |            |
|---|-------------|------------|------------|------------|------------|
|   | 2007        | 2006       | 2005       | 2004       | 2003       |
| (In thousands)                                    |             |            |            |            |            |
| <b>Selected Consolidated Balance Sheet Data</b>   |             |            |            |            |            |
| Cash, cash equivalents and short-term investments | \$ 158,866  | \$ 55,317  | \$ 175,078 | \$ 221,198 | \$ 202,646 |
| Total assets                                      | \$ 544,017  | \$ 443,899 | \$ 464,530 | \$ 515,283 | \$ 511,789 |
| Total long-term obligations                       | \$ 231,573  | \$ 15,689  | \$ 15,514  | \$ 8,930   | \$ 7,156   |

- (a) Charges consisted of net restructuring costs resulting from workforce reduction activities and facility lease exit costs, amortization of other intangibles, acquisition-related expenses, acquired in-process research and development expenses and earn-out provisions associated with previous company and technology acquisitions. See Note 5 to the Consolidated Financial Statements.
- (b) CodeGear goodwill impairment charge. See Note 2 to the Consolidated Financial Statements.
- (c) Other income consisted of a gain on sale of fixed assets and gains or collections on investments previously written down or written off.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion includes a number of forward-looking statements and, with respect to this section, the cautionary language applicable to such forward-looking statements described above in "A Caution About Forward-Looking Statements" found before Item 1 of this Form 10-K is incorporated by reference into this Item 7. Forward-looking statements are management's best estimates and actual results could differ substantially from those estimates.

### **Overview**

Borland is a leading vendor of Open Application Lifecycle Management solutions, or ALM, which represents the segment of the ALM market in which vendors' solutions are flexible enough to support a customer's specific processes, tools and platforms. Open ALM is a new, customer-centric approach to helping IT organizations transform software delivery into a managed, efficient and predictable business process. We offer a combination of software products as well as consulting and education services to help our customers better manage the growing complexity of software development. Our goal is to provide customers with a foundation which will allow them to consistently deliver software on-time, on-budget and with increased business value.

Borland's solutions address five critical ALM processes: Project & Portfolio Management, Requirements Definition & Management, Lifecycle Quality Management, Model Driven Development and Software Change Management. Each solution can play an important role in helping enterprises manage the complexity of software development and delivery, by providing business, development and operational teams with increased visibility and control over all phases of the software lifecycle. We believe this is especially crucial for large enterprises working within heterogeneous and distributed environments.

We have been evolving our business and strategy in recent years in response to the many changes occurring in the software industry and specifically in our market. In a March 2005 study, IDC forecasted the ALM market to grow to \$3.3 billion in 2009, achieving a 9.2% compound annual growth rate between 2004 and 2009. In order to capitalize on the ALM market growth, over the past several quarters we have made changes to our overall product portfolio, our worldwide services organization, our R&D investments, as well as our global sales and marketing models to reflect our Open ALM vision and product strategy. As part of this transformation, we have shifted our focus from selling individual stand-alone products to selling more multi-product, enterprise-class solutions.

Effective January 1, 2007, consistent with how we manage our business, we changed from reporting one segment to reporting two segments: Enterprise and CodeGear. A summary of the types of products and services provided by the Enterprise and CodeGear segments is provided below.

*Enterprise.* Our Enterprise segment focuses on Open Application Lifecycle Management solutions, or ALM, which includes a combination of software products as well as consulting and education services to help our customers better manage their software development projects. Our ALM portfolio includes products and services for project and portfolio management, requirements definition and management, lifecycle quality management, software configuration and change management and modeling. The Enterprise segment also includes our Deployment Product Group, or DPG, products.

*CodeGear.* Our CodeGear segment focuses on developing tools for individual developers and currently offers a number of Integrated Developer Environment, or IDE, and database products for Java, .NET and Windows development. CodeGear products include Delphi, Delphi for PHP, C++Builder, C#Builder, JBuilder, Turbo<sup>TM</sup> and Interbase. CodeGear also provides worldwide developer support and education services.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The application of GAAP requires us to make estimates that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Changes in these accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by us. To the extent there are material differences

between these estimates and actual results, our future financial statement presentation of our financial condition or results of operations will be affected.

On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, provision for doubtful accounts and sales returns, fair value of investments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, restructuring obligations, and contingencies and litigation, among others. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances.

In addition to these estimates and assumptions which are utilized in the preparation of historical financial statements, we make assumptions and estimates as to the timing and amount of future revenue. Specifically, our sales personnel monitor the status of proposals, including the estimated closing dates and potential dollar amounts. We aggregate these estimates periodically to generate a sales pipeline and then evaluate the pipeline to identify trends in our business. This pipeline analysis and related estimates of revenue may differ significantly from actual revenues in a particular reporting period as the estimates and assumptions were made using the best available data at the time, which is subject to change. The inability to properly estimate the timing and amount of future revenue could significantly affect our future operations. A variation in the pipeline or in the conversion rate of the pipeline into contracts could cause us to plan or budget inaccurately and thereby could adversely affect our business, financial condition or results of operations. To be specific, an enterprise software financial model includes expenses which are substantially fixed in the near-term and revenue which may vary significantly from quarter to quarter. Revenue is typically recorded in the latter part of a given quarter; therefore, we may not be able to adjust our cost structure to respond to a variation in the conversion of the pipeline in a timely manner, and such delays may adversely and materially affect our business, financial condition or results of operations.

We believe the following critical accounting policies affect our significant judgments and estimates used in the preparation of our consolidated financial statements. Our management has discussed the development and selection of those critical accounting policies and estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures related to our critical accounting policies and estimates in this report.

### **Revenue Recognition**

We derive revenue from licenses of our software and sales of related services, which include, post-contract customer support, or PCS, consulting and education.

We recognize license fees on contracts, which do not involve significant implementation or integration essential to the functionality of our products upon delivery when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is probable. For arrangements with multiple elements, we determine the value for services based upon vendor specific objective evidence, or VSOE, in accordance with American Institute of Certified Public Accountants Statement of Position, "*Software Revenue Recognition*," or SOP 97-2, and related accounting literature. VSOE for the consulting services element is based upon the standard rates we charge for services, given the complexity of the services and experience of the professional performing the services, or the amount charged on similar transactions. VSOE for annual PCS is based on the stated future renewal rates, if substantive, included in the contracts, the amount charged on a similar transaction or other specific evidence. We recognize revenue for the license portion of a multiple element arrangement based upon the residual contract value as prescribed by SOP No. 98-9, "*Modification of SOP No. 97-2 with Respect to Certain Transactions*." We assess collectability based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. If we determine the collection of a fee is not probable, we defer the fee and recognize revenue at the time collection becomes probable, which is generally upon receipt of payment. If we determine that a fee is not fixed or determinable, we defer the fee and recognize revenue as the fee becomes due. We generally recognize revenue for software licensed for a specific time period, or license term, ratably over the term of the license.

Historically, we developed solutions providing specific functionality to certain hardware vendors. These solutions may involve significant implementation or integration essential to the functionality of our products. We recognize license and service revenues associated with contracts involving significant implementation, integration or new functionality, either on a percentage-of-completion basis or a completed-contract basis depending on

whether or not we can obtain reliable estimates of the costs to complete the work. Percentage-of-completion accounting often involves complex accounting decisions, judgments and estimates regarding future costs and recoverability of unbilled amounts. We classify revenues from these arrangements as license and/or service revenues, based upon the estimated fair value of each element based upon VSOE. Provisions for estimated contract losses are recognized in the period in which the loss becomes probable and can be reasonably estimated in accordance with SOP No. 81-1, "*Accounting for Performance of Construction-Type and Certain Production-Type Contracts.*" During 2007, 2006 and 2005 we did not account for any consulting contracts on a completed-contract basis or a percentage-of-completion basis.

Service revenues from consulting and education services related to the implementation of our software are recognized when services are performed. Service revenues from our process consulting are recognized based on when services are performed or when certain milestones have been met, depending on our arrangement with the customer. For process consulting services, we recognize revenue in accordance with the SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," or SAB 104.

Service revenue from PCS is recognized ratably over the support period, which is generally one year.

Net revenue on our products held by our distributors is recognized upon sell-through to their customers and we maintain allowances for returns for all unsold products held by our distributors. Additionally, we maintain allowances for product returns from our channel resellers and end users, whose revenues are recognized on a sell-in basis, based upon historical return rates, current economic trends, changes in customer demand and acceptance of our products. Management makes significant judgments and estimates when establishing our sales returns and other allowances, especially when concerning channel resellers. The provision for sales returns and rebates is recorded as a reduction to license and other revenues in the period that the accrual is considered necessary. The reserve balance is recorded on the balance sheet as an accounts receivable allowance. If future returns and rebates increase over historical levels, additional allowances may be required.

As we continue to focus our business on the ALM market and enterprise solution selling, we will continue to become more dependent on large, multi-product transactions to meet our revenue expectations. These transactions typically involve longer sales cycles and the timing of these deals could cause fluctuations in our quarterly results of operations and cash flows.

### **Accounting for Acquisitions**

In April 2006, we completed the acquisition of Segue Software, Inc., or Segue. Segue was a Massachusetts-based provider of quality and testing solutions that defined, measured, managed and improved software quality throughout the entire application lifecycle. The purchase price was approximately \$115.9 million and consisted of fixed consideration of \$105.4 million in cash used to purchase all of Segue's outstanding common shares, \$8.1 million in cash paid to eligible Segue employees who held vested common stock options on the closing date of the acquisition and \$2.5 million of direct acquisition-related costs. Cash acquired in the acquisition was \$13.5 million. The results of operations for Segue have been included in our consolidated financial statements from the date of acquisition.

In October 2005, we completed the acquisition of privately held Legadero, a Texas-based provider of information technology management and governance solutions for software development and delivery. The purchase price consisted of fixed consideration of \$7.5 million in cash plus contingent consideration of \$5.4 million for retention payments to be earned through the continued employment of certain key employees. This contingent consideration vests and will be paid over a two-year period or earlier under certain circumstances and will be recognized as compensation expense in the period earned. In addition, we incurred \$0.1 million of acquisition-related costs subsequent to the completion of the acquisition. Options to purchase 378,000 shares of common stock pursuant to our 2003 Supplemental Stock Option Plan were issued to Legadero employees who became Borland employees. These options vest over a four-year period. Cash acquired in the acquisition was \$0.3 million. The results of operations for Legadero have been included in our consolidated financial statements from the date of acquisition.

In January 2005, we completed the acquisition of privately held TeraQuest, a Texas-based consulting firm focusing on software improvement, quality assurance and risk management for corporate and government software organizations. The purchase price consisted of fixed consideration of \$5.4 million in cash and \$0.5 million of acquisition-related costs. The contingent consideration includes cash retention payments of \$1.3 million to be earned through the continued employment of certain key employees. This contingent consideration vested over a two-year period. In addition, \$0.9 million of restricted stock, which will vest over a four-year period, was issued to certain TeraQuest key employees upon the closing. Cash acquired in the acquisition was \$1.5 million. Results of operations for TeraQuest have been included in our consolidated financial statements from the date of acquisition.

We account for acquisitions as purchases in accordance with the provisions of SFAS No. 141, "*Business Combinations*." As such, we report all acquired tangible and identifiable intangible assets and assumed liabilities of acquired companies at fair value. Our determination of the values of acquired intangibles was based on the discounted cash flow method. We recognize the fair value of purchased identifiable intangibles as an operating expense over the estimated useful life of the identifiable intangible, unless the identifiable intangible is determined to have an indefinite life. We recognize the fair value associated with in-process technology as an operating expense during the period the transaction is consummated. We value employee stock options assumed as part of acquisitions using the Black-Scholes valuation model. The value of all vested awards and the value of unvested awards in excess of the intrinsic value of the unvested awards are included as part of the purchase consideration. We report the intrinsic value of the unvested awards as compensation and record it as an operating expense over the remaining vesting period of the award. We value our stock issued as part of the purchase consideration based upon the average of the closing price for the five-day trading period surrounding the transaction. We report total consideration in excess of the fair value of the acquired tangible and identifiable intangible assets, net of assumed liabilities, as goodwill.

Goodwill and identifiable intangibles are accounted for in accordance with SFAS No. 141 "*Business Combinations*", or SFAS 141 and SFAS No. 142 "*Goodwill and Other Intangible Asset*.", or SFAS 142. Effective January 1, 2007, we changed from reporting one segment to reporting two segments (Enterprise and CodeGear). As of January 1, 2007, we began utilizing a combination of a discounted cash flow and market approach and goodwill was allocated to each of the reporting segments. Please refer to Note 15 "Reportable Segments" below for more information on the accounting related to the reportable segments. Under SFAS 142, goodwill and other long-lived assets must be tested for impairment annually or in interim periods, if conditions indicate possible impairment. Impairment testing of goodwill is performed in two steps. First, the carrying value of the reporting unit is compared to the fair value of the reporting unit including the goodwill. If the carrying amount of the reporting unit is greater than the fair value of the reporting unit, we perform the second step. The second step of the impairment test, used to measure the amount of impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, the impairment loss shall be recognized as an operating expense in an amount equal to that excess. We performed our annual testing of goodwill for impairment during the third quarter of 2007 and no impairment was indicated as of September 30, 2007. At December 31, 2007, we took into consideration various data points when determining the implied fair value including discounted cash flows and market comparable transactions. Our estimated fair value requires management to make estimates and assumptions that impact the reporting value of goodwill and may result in future write downs beyond the current reduction. As a result of this testing, impairment of \$26.5 million was recorded against our CodeGear reporting segment.

We performed our goodwill impairment testing in the third quarter of 2006 based on a single reporting unit and concluded there was no impairment as of September 30, 2006. The market capitalization method was the primary method used to determine the fair values for SFAS 142 impairment purposes. We considered the establishment of two segments as a triggering event under FAS 142 and performed a goodwill allocation and impairment analysis at December 31, 2006 for our reporting segments (Enterprise and CodeGear). We used the cash flow method in determining fair values for goodwill allocation and impairment purposes and concluded there was no impairment for the goodwill allocated to each segment. We did not record impairment to goodwill during 2005. Refer to Note 4 of notes to Consolidated Financial Statements in Item 15 for further discussion of the valuation of goodwill and intangible assets.

We may incur substantial liabilities in connection with our acquisitions that are accounted for as purchases. These include the termination of employees, asserted claims or litigation, impairment of assets or termination of leases. We estimate merger-related costs at the time of the acquisition and accrue these costs, in accordance with Emerging Issues Task Force Issue No. 95-3, "*Recognition of Liabilities in Connection with a Purchase Business Combination*," with an offsetting entry to goodwill. These accruals involve estimates regarding future events, sometimes several years in the future. We may make revisions and adjustments to the accrual and the related goodwill based on actual events.

### **Restructuring**

We report costs associated with employee terminations and other exit activity in accordance with SFAS No. 146 "*Accounting for Costs Associated with Exit or Disposal Activities*," or SFAS No. 146, SEC Staff Accounting Bulletin No. 100, "*Restructuring and Impairment Charges*," and SFAS No. 112, "*Employers' Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43*," as applicable. Under SFAS No. 146, we record employee termination benefits as an operating expense when the benefit arrangement is communicated to the employee and no significant future services are required. The definition of significant future services does not include any retention period up to 60-days in connection with the employee earning the termination benefits. We recognize the present value of facility lease termination obligations, net of estimated sublease income and other exit costs, when we have future payments with no future economic benefit or a commitment to pay the termination costs of a prior commitment. In future periods we will record accretion expense to increase our liability to an amount equal to the estimated future cash payments necessary to exit the leases. This requires a significant amount of judgment and management estimation in order to determine the expected time frame it will take to find a subtenant, the amount of sublease income to be received and the appropriate discount rate to calculate the present value of the future cash flows. Should actual lease exit costs differ from our estimates, we may be required to adjust our restructuring charge which would impact net income in the period such adjustment was recorded.

### **Allowances for Doubtful Accounts**

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Management specifically analyzes accounts receivable, historical bad debt patterns, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our gross accounts receivable balance was \$60.7 million and \$67.6 million as of December 31, 2007 and 2006, respectively. Our allowance for doubtful accounts was \$4.3 million and \$3.2 million as of December 31, 2007 and 2006, respectively.

### **Stock-Based Compensation**

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS 123R"), using the modified prospective transition method, and therefore have not restated prior periods' results. Under this method, we recognize stock-based compensation expense for all share-based payment awards granted after January 1, 2006 and granted prior to but not yet vested as of January 1, 2006, in accordance with SFAS 123R. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation expense net of an estimated forfeiture rate and recognize compensation cost for only those shares expected to vest on a straight-line basis over the requisite service period of the award. Prior to SFAS 123R adoption, we accounted for share-based payment awards under Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25") and, accordingly, generally recognized compensation expense only when we granted options with a discounted exercise price.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of subjective assumptions, including the expected life of the share-based payment awards and stock price volatility, and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In

addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 12 to the Consolidated Financial Statements in Item 15 for a further discussion on stock-based compensation.

### **Impairment or Disposal of Long-Lived Assets**

In accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” or SFAS 144, we evaluate the accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed. SFAS 144 requires recognition of impairment of long-lived assets if the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset for assets to be held and used, or the amount by which the carrying value exceeds the fair market value less cost to dispose for assets to be disposed. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved. No impairment was recorded in 2007, 2006 and 2005.

### **Investment Securities**

We report investments in debt and marketable equity securities, and equity securities in our investment portfolio, at fair value based on quoted market prices or, if quoted prices are not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment. Unrealized gains and losses on available-for-sale investment securities are included in equity, net of applicable taxes and other adjustments. We regularly review investment securities for impairment based on both quantitative and qualitative criteria that include the extent to which cost exceeds market value, the duration of that market decline, our intent and ability to hold to maturity or until forecasted recovery, and the financial health of and specific prospects for the issuer. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method. Unrealized gains and losses on investment securities classified as trading and certain retained interests are included in earnings.

### **Reportable Segments**

Effective January 1, 2007, consistent with how we manage our business, we changed from reporting one segment to reporting two segments: Enterprise and CodeGear. A summary of the types of products and services provided by the Enterprise and CodeGear segments is provided below.

*Enterprise.* Our Enterprise segment focuses on Open Application Lifecycle Management solutions, or ALM, which includes a combination of software products as well as consulting and education services to help our customers better manage their software development projects. Our ALM portfolio includes products and services for project and portfolio management, requirements definition and management, lifecycle quality management, software configuration and change management and modeling. The Enterprise segment also includes our Deployment Product Group, or DPG, products.

*CodeGear.* Our CodeGear segment focuses on developing tools for individual developers and currently offers a number of Integrated Developer Environment, or IDE, and database products for Java, .NET and Windows development. CodeGear products include Delphi, Delphi for PHP, C++Builder, C#Builder, JBuilder, Turbo™ and Interbase. CodeGear also provides worldwide developer support and education services.

### **Income Taxes**

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Deferred income taxes are recorded in accordance with SFAS No. 109, “*Accounting for Income Taxes*,” or SFAS 109. Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between

financial reporting and the tax basis of assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. SFAS 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not to occur. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in future years in appropriate tax jurisdictions to realize benefit from the reversal of temporary differences and from net operating loss carryforwards. Based on the weight of the available evidence, we have provided a valuation allowance against substantially all of our net deferred tax assets. Management will continue to evaluate the realizability of the deferred tax assets and related valuation allowances. If our assessment of the deferred tax assets or the corresponding valuation allowance were to change, we would record the related adjustment to income during the period in which we make the determination. Our tax rate may also vary based on our results and the mix of income or loss amongst the domestic and foreign tax jurisdictions in which we operate.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We record liabilities for anticipated tax audit issues based on our estimate of whether, and to the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be. We also record deferred tax liabilities for the undistributed earnings of foreign subsidiaries in the period in which the foreign earnings are not considered permanently reinvested.

### **Contingencies**

Our current estimated range of liability related to pending litigation is based on claims which management has determined have a reasonable probability of resulting in payment by us and for which management can estimate the loss amount or range of amounts. We have recorded the minimum estimated liability related to those claims, where there is a range of loss. Because of the uncertainties related to both the outcome and loss amount or range of loss of pending litigation and demands, management is unable to make a determinative estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation and demands, and revise our estimates, record new estimates or remove previously recorded estimates accordingly. Such updates to our estimates of the potential liability could materially impact our results of operations and financial position.

### **Determining Functional Currencies for the Purpose of Consolidation**

We have numerous foreign subsidiaries, which together accounted for 58% of our total revenues in 2007 and 19% of our total assets and 14% of our total liabilities as of December 31, 2007.

In preparing our consolidated financial statements, we are required to translate the financial statements of the foreign subsidiaries from their functional currencies, generally the local currency, into United States dollars. This process results in unrealized exchange gains and losses, which are included as a component of cumulative other comprehensive income within stockholders' equity.

Under the relevant accounting guidance, the treatment of these translation gains or losses is dependent upon our determination of the functional currency of each subsidiary. The functional currency is determined based on the judgment of management and involves consideration of all relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions (including billings, financing, payroll and other expenditures) is considered the functional currency; however, any dependency upon the parent and the nature of the subsidiary's operations are also considered.

Cumulative translation adjustments include any gain or loss associated with the translation of a subsidiary's financial statements when the functional currency of a subsidiary is the local currency. However, if the functional currency is deemed to be the United States dollar, any gain or loss associated with the translation of these financial statements would be included within our statement of operations. If we dispose of any of our subsidiaries, any cumulative translation gains or losses would be realized and recorded within our statement of operations in the period during which the disposal occurs. If we determine that there has been a change in the functional currency of a

subsidiary to the United States dollar, any translation gains or losses arising after the date of change would be included within our statement of operations.

Based on our assessment of the factors discussed above, we consider the subsidiary's local currency to be the functional currency for each of our international subsidiaries. Accordingly, we had cumulative translation gains of \$10.3 million and \$9.1 million, which were included as part of cumulative other comprehensive income within our balance sheet at December 31, 2007 and 2006, respectively. During 2007, we recorded net unrealized foreign currency gains totaling \$1.2 million as part of other comprehensive income on the balance sheet, which included translation gains and losses associated with our foreign subsidiaries. During 2006, we recorded net unrealized foreign currency gains totaling \$2.5 million. During 2005, we recorded net unrealized foreign currency losses totaling \$6.1 million. Had we determined that the functional currency of our subsidiaries was the United States dollar, these translation gains and losses would have been included in our results of operations for each of the years presented.

The magnitude of these gains or losses is dependent upon movements in the exchange rates of the foreign currencies in which we transact business against the United States dollar and the significance of the assets, liabilities, revenues and expenses denominated in foreign currencies. These currencies have included the Japanese Yen, the Euro, the United Kingdom Pound Sterling, Chinese Yuan, Korean Won, Brazilian Real, Russian Ruble, Indian Rupee and Australian, New Zealand, Canadian, Singapore and Hong Kong dollars. Any future translation gains or losses could differ significantly from those we have experienced in recent years. In addition, if we determine that a change in the functional currency of one of our subsidiaries has occurred at any point in time or we sell or liquidate one of our subsidiaries, we would be required to include any translation gains or losses from the date of change in our statement of operations. Our foreign currency forward exchange contracts are discussed under Foreign Currency Risk in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

### Recent Accounting Pronouncements

Refer to Note 2 of the notes to Consolidated Financial Statements in Item 15 for a full description of recent accounting pronouncements including the expected dates of adoption and effects on our financial position, results of operations and cash flows.

### Results of Operations

The following table presents our Consolidated Statements of Operations data and the related percentage of total revenues for 2007, 2006 and 2005 (dollars in thousands):

|  | 2007       |      | 2006       |      | 2005       |      |
|--|------------|------|------------|------|------------|------|
| License and other revenues   | \$ 137,358 | 51%  | \$ 165,886 | 54%  | \$ 163,182 | 59%  |
| Service revenues   | 131,423    | 49   | 138,774    | 46   | 113,561    | 41   |
| Total revenues   | 268,781    | 100  | 304,660    | 100  | 276,743    | 100  |
| Cost of license and other revenues   | 6,014      | 2    | 7,439      | 2    | 8,884      | 3    |
| Cost of service revenues   | 40,918     | 15   | 55,381     | 18   | 40,491     | 15   |
| Amortization of acquired intangibles and other charges   | 8,445      | 3    | 6,972      | 2    | 10,043     | 4    |
| Cost of revenues   | 55,377     | 21   | 69,792     | 23   | 59,418     | 21   |
| Gross profit   | 213,404    | 79   | 234,868    | 77   | 217,325    | 79   |
| Selling, general and administrative  | 176,206    | 66   | 195,710    | 64   | 174,002    | 63   |
| Research and development   | 57,795     | 22   | 70,178     | 23   | 57,687     | 21   |
| Restructuring, amortization of other intangibles, acquisition-related expenses and other charges | 13,934     | 5    | 22,073     | 7    | 20,611     | 7    |
| Impairment of goodwill   | 26,509     | 10   | —          | —    | —          | —    |
| Total operating expenses   | 274,444    | 101  | 287,961    | 95   | 252,300    | 90   |
| Operating loss   | (61,040)   | (22) | (53,093)   | (17) | (34,975)   | (12) |
| Gain on investments, net   | —          | —    | —          | —    | 4,372      | 2    |
| Gain on sale of fixed assets   | —          | —    | 1,658      | 1    | —          | —    |
| Interest income  | 8,742      | 3    | 3,168      | 1    | 5,509      | 2    |

[Table of Contents](#)

|                          | 2007        |       | 2006        |       | 2005        |       |
|--------------------------|-------------|-------|-------------|-------|-------------|-------|
| Interest expense         | (5,449)     | (2)   | (374)       | (0)   | (302)       | (0)   |
| Other expense            | (790)       | (0)   | (790)       | (0)   | (52)        | (0)   |
| Loss before income taxes | (58,537)    | (21)  | (49,431)    | (16)  | (25,448)    | (8)   |
| Income tax provision     | 3,136       | 1     | 2,522       | 1     | 4,384       | 2     |
| Net Loss                 | \$ (61,673) | (22)% | \$ (51,953) | (17)% | \$ (29,832) | (10)% |

For information concerning our operating results by segment, please see Note 15 to the Consolidated Financial Statements.

**Total Revenues**

The following table presents our total revenue for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                | 2007       | Change      |       | 2006       | Change    |     | 2005       |
|----------------|------------|-------------|-------|------------|-----------|-----|------------|
|                |            | \$          | %     |            | \$        | %   |            |
| Total revenues | \$ 268,781 | \$ (35,879) | (12)% | \$ 304,660 | \$ 27,917 | 10% | \$ 276,743 |

We derive revenue from licenses of our software and the sale of related services. No single customer represented greater than 10% of our total revenues in 2007, 2006 and 2005.

**License and Other Revenues by Product**

We have three major product categories: Application Lifecycle Management (“ALM”), which includes our Tempo, TeamFocus, Caliber, Together, Silk and Gauntlet products; Deployment Product Group also sometimes referred to as our Middleware Applications (“DPG”), which includes our VisiBroker and AppServer products; and Integrated Development Environment (“IDE”), which includes our JBuilder, Delphi, Delphi for PHP, C++Builder, C# Builder, Turbo and Interbase products.

The following table presents our revenues by product (in thousands):

|                            | For the Twelve Months Ended<br>December 31, 2007 |           |           |            | For the Twelve Months Ended<br>December 31, 2006 |           |           |            |
|----------------------------|--|-----------|-----------|------------|--|-----------|-----------|------------|
|                            | Enterprise                                       |           | CodeGear  |            | Enterprise                                       |           | CodeGear  |            |
|                            | ALM  | DPG       | IDE       | Total      | ALM  | DPG       | IDE       | Total      |
| License and other revenues | \$ 70,253  | \$ 26,433 | \$ 40,672 | \$ 137,358 | \$ 85,030  | \$ 29,224 | \$ 51,632 | \$ 165,886 |
| Service revenues           | 95,418   | 19,679    | 16,326    | 131,423    | 90,352   | 24,373    | 24,049    | 138,774    |
| Total                      | \$ 165,671                                       | \$ 46,112 | \$ 56,998 | \$ 268,781 | \$ 175,382                                       | \$ 53,597 | \$ 75,681 | \$ 304,660 |

**License and Other Revenues**

The following table presents our license and other revenues for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                              | 2007       | Change      |       | 2006       | Change   |    | 2005       |
|------------------------------|------------|-------------|-------|------------|----------|----|------------|
|                              |            | \$          | %     |            | \$       | %  |            |
| License and other revenues   | \$ 137,358 | \$ (28,528) | (17)% | \$ 165,886 | \$ 2,704 | 2% | \$ 163,182 |
| As percent of total revenues | 51%        |             |       | 54%        |          |    | 59%        |

License and other revenues represent amounts for license fees and royalties earned for granting customers the right to use and distribute our software products. License and other revenues decreased \$28.5 million in 2007 from 2006. ALM license revenues decreased 17% to \$70.3 million in 2007 from 2006. This decrease was the result of

lower sales of our Caliber, Control Center, Optimizelt and StarTeam products, partially offset by growth in our Silk products, which we obtained through our acquisition of Segue in April 2006. License revenues from our DPG products decreased 10% to \$26.4 million. The decrease was primarily driven by lower sales of our VisiBroker and AppServer products. License revenues from our IDE products decreased 21%, to \$40.7 million, primarily on lower sales of our JBuilder product.

License and other revenues increased \$2.7 million in 2006 from 2005 due primarily to an increase in revenues from our ALM products, which was partially offset by the decrease in revenues from our DPG and IDE products. During 2006, ALM license revenues increased 63% to \$85.0 million as the result of improved performance in solution selling into larger enterprise-level customers and the incremental contribution of our Silk products, which we obtained through our acquisition of Segue in April 2006. License revenues from our IDE products decreased 14%, to \$51.6 million, primarily as a result of continued decline in our JBuilder product revenues, due to a delay in the release of a new version JBuilder 2007 until the fourth quarter of 2006. The decrease in JBuilder revenues was partially offset by an increase in our Delphi product revenues, driven by release of Delphi 2006 in the first quarter of 2006. License revenues from our DPG products decreased 43% to \$29.2 million as a result of particularly strong compliance and audit activities with existing customers in the first and third quarters of 2005.

### Service Revenues

The following table presents our service revenues for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                              | 2007       |   | Change     |      | 2006       |   | Change    |     | 2005       |   |
|------------------------------|------------|---|------------|------|------------|---|-----------|-----|------------|---|
|                              | \$         | % | \$         | %    | \$         | % | \$        | %   | \$         | % |
| Service revenues             | \$ 131,423 |   | \$ (7,351) | (5)% | \$ 138,774 |   | \$ 25,213 | 22% | \$ 113,561 |   |
| As percent of total revenues | 49%        |   |            |      | 46%        |   |           |     | 41%        |   |

Service revenues represent amounts earned for technical support, which includes call support, maintenance and upgrades and for consulting and education services for our software products. Service revenues decreased \$7.4 million in 2007, as compared to 2006. Technical support revenues increased \$2.6 million to \$102.3 million in 2007 compared to \$99.7 million in 2006. The increase was due to the contribution of Silk products as a result of our Segue acquisition in April 2006 and support revenue growth in our Caliber, StarTeam and Together products, partially offset by decreases in our DPG and IDE products.

Consulting and education services revenues decreased \$9.9 million to \$29.2 million in 2007 compared to \$39.1 million in 2006. The decrease was primarily attributable to a focus on more license driven consulting projects versus pure consulting engagements.

Service revenues increased \$25.2 million in 2006, as compared to 2005. Technical support revenues increased \$15.2 million to \$99.7 million in 2006 compared to \$84.5 million in 2005, primarily due to the acquisition of Segue and our growing base of ALM customers who purchase multi-product solutions with technical support contracts. Consulting and education services revenues increased \$10.0 million to \$39.1 million in 2006 compared to \$29.0 million in 2005, due to follow-on revenue from the Teraquest acquisition and large, long-term contracts associated with the growth and expansion of our ALM business. The consulting and education services help ALM customers accelerate their adoption and deployment of our ALM tools. Consulting and education services revenues totaled 28% and 26% of service revenues in 2006 and 2005, respectively.

### International Revenue

International revenues represented 58%, 52% and 57% of total revenues in 2007, 2006 and 2005, respectively. The increase in the percentage of international revenues in 2007 compared to 2006 was principally due to large customer deals in the United Kingdom coupled with a decrease in large customer deals in the United States. Revenue in Asia Pacific, or APAC decreased by \$4 million from \$37.2 million in 2006 to \$33.2 million in 2007 due to continued weakness of our DPG and IDE products sales.

## [Table of Contents](#)

The decrease in the percentage of international revenues in 2006 compared to 2005 was principally due to the expansion of ALM business in the US. Revenue in APAC decreased by \$4 million from \$41.2 million in 2005 to \$37.2 million in 2006 due to continued weakness of our DPG and IDE products sales.

The following table presents our total revenue by country and their percentage of total revenues for 2007, 2006 and 2005 (dollars in thousands):

|                     | <u>2007</u>       |             | <u>2006</u>       |             | <u>2005</u>       |             |
|---------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| United States       | \$ 112,652        | 42%         | \$ 147,050        | 48%         | \$ 118,936        | 43%         |
| Germany             | 30,666            | 11          | 29,210            | 10          | 31,010            | 11          |
| United Kingdom      | 28,281            | 11          | 24,427            | 8           | 22,484            | 8           |
| All other countries | 97,182            | 36          | 103,973           | 34          | 104,313           | 38          |
| Total revenues      | <u>\$ 268,781</u> | <u>100%</u> | <u>\$ 304,660</u> | <u>100%</u> | <u>\$ 276,743</u> | <u>100%</u> |

No other single country accounted for revenues greater than 10% of total revenues in 2007, 2006 or 2005.

Our international revenues are influenced by fluctuations in foreign currencies and would be harmed if the U.S. dollar were to strengthen against major foreign currencies, primarily the Euro, the United Kingdom Pound Sterling and the Japanese Yen.

### ***Regional Revenues***

The following table presents our total revenues by region and percentage of total revenues for 2007, 2006 and 2005 (dollars in thousands):

|                                | <u>2007</u>       |             | <u>2006</u>       |             | <u>2005</u>       |             |
|--------------------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| Americas                       | \$ 136,967        | 51%         | \$ 168,278        | 55%         | \$ 138,008        | 50%         |
| Europe, Middle East and Africa | 98,657            | 37          | 99,218            | 33          | 97,529            | 35          |
| Asia Pacific                   | 33,157            | 12          | 37,164            | 12          | 41,206            | 15          |
| Total revenues                 | <u>\$ 268,781</u> | <u>100%</u> | <u>\$ 304,660</u> | <u>100%</u> | <u>\$ 276,743</u> | <u>100%</u> |

Our Americas operations include our activities in the United States as well as subsidiaries and branch offices in Brazil and Canada. Our Europe, Middle East and Africa, or EMEA operations include activities of our subsidiaries and branch offices in Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom. Our Asia Pacific, or APAC operations include activities of our subsidiaries and branch offices in Australia, China, Hong Kong, India, Japan, New Zealand, Singapore and Taiwan.

*Americas.* Revenues in the Americas region decreased \$31.3 million, or 19%, in 2007, compared to 2006. License revenues decreased \$27.7 million, or 33%, in 2007, compared to 2006 due primarily to lower large deal volume in our ALM business and consequently our ALM license revenues decreased \$20.6 million. DPG and IDE license revenues decreased in 2007 by \$2.3 million and \$4.8 million respectively. Service revenues decreased \$3.6 million, or 4%, in 2007. ALM service revenues increased \$3 million in 2007 with consulting and education services revenues and technical support revenues contributing \$18.1 million and \$47.9 million respectively. The strength in technical support revenues was attributable to our expanding base of enterprise-level customers who have purchased multi-product solutions with technical support contracts attached. DPG and IDE service revenues decreased \$2 million and \$4.6 million, respectively, in 2007.

Revenues in the Americas region increased \$30.3 million, or 22%, in 2006, compared to 2005. License revenues increased \$6.8 million, or 9%, in 2006, compared to 2005 due primarily to the strength in ALM license revenues which increased \$27.6 million. DPG and IDE license revenues decreased \$13.5 million and \$7.3 million respectively, partially offsetting the overall increase in license revenues. Service revenues increased \$23.5 million, or 38%, in 2006 due to the strong growth in ALM service revenues. ALM service revenues increased \$26.4 million in 2006 with both in consulting and education service revenues and technical support revenues contributing \$9.4 million and \$17.0 million respectively. The strength in technical support revenues was attributable to our

expanding base of enterprise-level customers who have purchased multi-product solutions with technical support contracts attached. DPG and IDE service revenues decreased \$0.1 million and \$2.8 million, respectively, in 2006.

*EMEA.* Revenues in the EMEA region decreased \$0.6 million, or 1%, in 2007, compared to 2006. License revenues increased \$1.6 million in 2007, compared to 2006, due to ALM license revenues increasing \$5.9 million, partially offset by decreased DPG license revenues of \$1.5 million and IDE license revenues of \$2.7 million. Service revenues decreased \$2.2 million. An increase in ALM service revenue of \$1.5 million was more than offset by DPG and IDE service revenue decreases of \$1.5 million and \$2.2 million, respectively.

Revenues in the EMEA region increased \$1.7 million, or 2%, in 2006, compared to 2005. License revenues increased \$0.6 million in 2006, compared to 2005, due to ALM license revenues increasing \$6.5 million, IDE license revenues increasing \$0.2 million, partially offset by DPG license revenues declining \$6.1 million. Service revenues increased \$1.1 million. ALM and DPG service revenues increased \$3.6 million and \$0.6 million respectively. IDE service revenues decreased \$3.1 million.

*APAC.* Revenues in the APAC region decreased \$4 million, or 11%, in 2007, compared to 2006 due to a decline in license revenues of \$2.4 million and a decline in service revenues of \$1.6. The decline was due primarily to the continued weakness of our revenue from DPG and IDE products in the region, which declined \$0.1 million and \$4.4 million respectively.

Revenues in the APAC region decreased \$4.0 million, or 10%, in 2006, compared to 2005 due to a decline in license revenues of \$4.7 million, partially offset by a \$0.7 million increase in service revenues. The decline was due primarily lower sales of our DPG and IDE products in the region, which resulted in a decline in revenue by \$2.1 million and \$1.9 million respectively.

**Cost of Revenues**

The following table presents our cost of revenues for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|  | 2007      | Change      |       | 2006      | Change     |       | 2005      |
|--|-----------|-------------|-------|-----------|------------|-------|-----------|
|  |           | \$          | %     |           | \$         | %     |           |
| Cost of license and other revenues       | \$ 6,014  | \$ (1,425)  | (19)% | \$ 7,439  | \$ (1,445) | (16)% | \$ 8,884  |
| As percent of license and other revenues | 4%        |             |       | 4%        |            |       | 5%        |
| Cost of service revenues                 | \$ 40,918 | \$ (14,463) | (26)% | \$ 55,381 | \$ 14,890  | 37%   | \$ 40,491 |
| As percent of service revenues           | 31%       |             |       | 40%       |            |       | 36%       |
| Amortization of acquired intangibles     | \$ 8,445  | \$ 1,473    | 21%   | \$ 6,972  | \$ (3,071) | (31)% | \$ 10,043 |
| As percent of license and other revenues | 6%        |             |       | 4%        |            |       | 6%        |

**Cost of License and Other Revenues**

Cost of license and other revenues consist primarily of variable costs including production costs, product packaging costs and royalties paid to third-party vendors. Costs of licensing and other revenues tend to fluctuate with changes in product mix. The reductions in the cost of license and other revenues on an absolute dollar basis when comparing 2007 to 2006 were principally attributable to a decrease of cost associated with the manufacturing of our products in 2007 and a decrease in royalties paid to third-party vendors. On a percentage of revenue basis, cost of license revenues remained the same in 2007 compared to 2006. Royalty costs were 2% of license revenues for each of the periods ending 2007, 2006 and 2005. The level of royalty costs in future periods will be dependent upon our ability to obtain favorable licensing terms for our products that include third-party technology and the extent to which we include such third-party technology in our product offerings.

The reductions in the cost of license and other revenue on an absolute dollar basis when comparing 2006 to 2005 were principally attributable to a decrease of cost associated with the manufacturing of our products in 2006 and a decrease in royalties paid to third-party vendors, partially offset by higher material cost due to a higher volume of license revenue in 2006.

***Cost of Service Revenues***

Cost of service revenues consist primarily of salaries and benefits, third-party contractor costs and related expenses incurred in providing technical support, consulting and education services. Cost of services revenues decreased \$14.5 million in 2007 to \$40.9 million, compared to \$55.4 million in 2006. The overall decrease in cost of services as a percentage of service revenues in 2007, compared to 2006, was attributable to the reduction of non-billable headcount, improved resource utilization, lower negotiated rates with third-party contractors and effective cost management through consolidation of worldwide call centers from nine to three. Accordingly, our service gross profit increased in 2007, compared with 2006. Service gross profit was 69%, 60% and 64% of revenues in 2007, 2006 and 2005, respectively.

The decrease in gross profit in 2006, compared with 2005 was due to an increase in the use of third-party contractors as our consulting services organization has required larger enterprise-level efforts for our ALM products and we have outsourced our maintenance renewal business in Europe.

***Amortization of Acquired Intangibles and Other Charges***

Amortization of acquired intangibles and other charges consists of the amortization of acquired developed technology, maintenance agreements and customer relationships. Amortization of acquired intangibles and other charges increased 21%, or \$1.5 million, during 2007 compared to 2006 due to our acquisition of Segue in April 2006.

Amortization of acquired intangibles and other charges decreased 31%, or \$3.1 million, during 2006 compared to 2005 due to the completion of the amortization in December 2005 of acquired developed technology related to the acquisition of Starbase and the completion of the amortization in January 2006 of acquired technology related to the acquisition of TogetherSoft. Partially offsetting these decreases in amortization expenses was an increase in amortization related to the acquisition of Segue in April 2006. During 2006, we recorded \$5.5 million of amortization expense for the acquisition of Segue.

**Operating Expenses**

***Selling, General and Administrative Expenses***

The following table presents our selling, general and administrative expenses for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|  | 2007       | Change      |       | 2006       | Change    |     | 2005       |
|--|------------|-------------|-------|------------|-----------|-----|------------|
|  |            | \$          | %     |            | \$        | %   |            |
| Selling, general and administrative expenses | \$ 176,206 | \$ (19,504) | (10)% | \$ 195,710 | \$ 21,708 | 12% | \$ 174,002 |
| As percent of total revenues                 | 66%        |             |       | 64%        |           |     | 63%        |

Selling, general and administrative expenses primarily consist of employee salaries and benefits, sales commissions, marketing programs, professional fees and facilities and equipment costs. Selling, general and administrative expenses decreased 10%, or \$19.5 million to \$176.2 million in 2007, compared to \$195.7 million in 2006. The decrease resulted primarily from reductions of \$8.9 million in incentive compensation due to lower revenues and reduced headcount, \$4.9 million in employee benefits due to lower payroll costs and incentive compensation, \$3.3 million in facilities costs due to reduction in occupied square footage, \$2.9 million in outside services due to lower consulting costs and tax and audit fees and \$2.8 million in payroll costs due to reduced

headcount. The decreases were partially offset by increases of \$2.1 million in bad debt expense and \$1.1 million convertible debt expense related to our Convertible Senior Notes offering in February 2007.

Selling, general and administrative, or SG&A, expenses increased 12%, or \$21.7 million, during 2006 compared to 2005. The increase resulted primarily from a \$4.0 million increase in employee compensation due to increased head count, \$6.0 million in incentive compensation, \$5.3 million of additional expenses resulting from the adoption of SFAS 123R and \$10.8 million of increased outside service expenses primarily associated with audit and tax fees, divestiture related expenses, the cost of contractors due to employee turnover and lease restoration expenses. This increase was partially offset by a \$3.6 million decrease in discretionary marketing expenses and a \$0.8 million decrease in bad debt expenses.

**Research and Development Expenses**

The following table presents our research and development expenses for 2007, 2006 and 2005, and dollar and percentage changes from the prior year (dollars in thousands):

|                                   | <u>2007</u> | <u>Change</u> |          | <u>2006</u> | <u>Change</u> |          | <u>2005</u> |
|-----------------------------------|-------------|---------------|----------|-------------|---------------|----------|-------------|
|                                   |             | <u>\$</u>     | <u>%</u> |             | <u>\$</u>     | <u>%</u> |             |
| Research and development expenses | \$ 57,795   | \$ (12,383)   | (18)%    | \$ 70,178   | \$ 12,491     | 22%      | \$ 57,687   |
| As percent of total revenues      | 22%         |               |          | 23%         |               |          | 21%         |

Research and development expenses primarily consist of employee salaries, benefits and other related costs of our engineering staff, external personnel costs, facilities and equipment costs. Research and development expenses decreased 18%, or \$12.4 million, to \$57.8 million in 2007, compared to \$70.2 million in 2006. The decrease was due primarily to a reduction in headcount and headcount related expenses as a result of a realignment and optimization of product development teams. In accordance with the decrease in expenditures for 2007, research and development, as a percentage of revenue, decreased 1% in 2007 from 2006. We continue to believe that focused investment in research and development is critical to our future growth and competitive position in the market place. Therefore, we expect to make future investments in research and development to remain competitive.

Research and development expenses increased 22%, or \$12.5 million, to \$70.2 million in 2006, compared to \$57.7 million in 2005. The increase was due primarily to an increase of headcount and related retention expenses as a result of the Segue acquisition and an increase of \$1.6 million in stock based compensation expenses resulting from the adoption of SFAS 123R. Despite the increase in expenditures, research and development as a percentage of revenue increased only 2% in 2006 from 2005 due to the increase in revenue.

**Restructuring, Amortization of Other Intangibles, Acquisition-Related Expenses and Other Charges**

The following table summarizes our restructuring, amortization of other intangibles, acquisition-related expenses and other charges activity for 2007, 2006 and 2005 (dollars in thousands):

|                                     | <u>2007</u>      |             | <u>2006</u>      |             | <u>2005</u>      |             |
|-------------------------------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Restructuring                       | \$ 11,254        | 81%         | \$ 12,880        | 58%         | \$ 16,110        | 78%         |
| Amortization of other intangibles   | 413              | 3           | 557              | 3           | 2,850            | 14          |
| Acquisition-related expenses        | 2,267            | 16          | 3,836            | 17          | 1,642            | 8           |
| Other charges:                      |                  |             |                  |             |                  |             |
| In-process research and development | —                | —           | 4,800            | 22          | 300              | 1           |
| Other charges                       | —                | —           | —                | —           | (291)            | (1)         |
| <b>Total</b>                        | <b>\$ 13,934</b> | <b>100%</b> | <b>\$ 22,073</b> | <b>100%</b> | <b>\$ 20,611</b> | <b>100%</b> |

*Restructuring.* During 2007, we recorded \$11.3 million in net restructuring expenses relating to two separate restructuring plans taken during the year, the first action occurred in the second quarter of 2007 and the second action occurred in the fourth quarter of 2007.

*FY 2007 4th Quarter*

In December 2007, we announced a worldwide reduction in force. The worldwide reduction in force involved approximately 90 employees, or approximately eight percent of our headcount prior to the reduction, and the closing of facilities in approximately six locations. The workforce reduction and facility actions were primarily in the United States and Europe, and to a lesser degree in other international locations. We incurred \$5.2 million in costs relating to our underutilized facility in Cupertino, California and \$3.7 million in costs relating to termination benefits for employees eliminated during this action.

These costs were partially offset by the reversal of \$0.6 million in previously accrued severance and benefit costs from prior restructuring plans.

*FY 2007 2nd Quarter*

In April of 2007, we announced the relocation of our corporate headquarters from Cupertino, California to Austin, Texas. The relocation involved restructuring actions with respect to personnel and the consolidation of facilities. Approximately 70 employees, or approximately six percent of our full-time staff, prior to the relocation, were effected. We incurred \$3 million in costs relating to termination benefits for employee positions eliminated as a result of the relocation.

*FY 2006*

During 2006, we recorded \$12.9 million in net restructuring expenses, which included \$3.1 million of facility related expenses due primarily to the consolidation of underutilized facilities in Lexington, Massachusetts, Sweden, France, Taiwan, Singapore, Japan and Australia. We also incurred \$9.4 million in severance costs and \$0.4 million in legal expenses for the elimination of 315 positions, of which 158 were in selling, general and administrative and 157 were in research and development.

*FY 2005*

During 2005, we recorded \$16.1 million in net restructuring expenses, which included primarily \$13.1 million in facilities related and \$4.0 million severance costs, partially offset by restructuring reversals of \$0.5 million related to a vacant facility in Raleigh, North Carolina that we were able to sublease and \$0.3 million for a previously exited facility located in Twyford, United Kingdom, that we re-occupied. Our 2005 restructuring actions included facility costs related to exiting a portion of an underutilized building located in Scotts Valley, California and non-recurring severance and benefit expenses related to headcount reductions of 81 employees, of which 53 were in SG&A and 28 were in research and development.

The following table summarizes our restructuring activity for 2007, 2006 and 2005 (in thousands):

|  | <u>Severance<br/>and Benefits</u> | <u>Facilities</u> | <u>Other</u> | <u>Total</u>     |
|--|-----------------------------------|-------------------|--------------|------------------|
| Accrual at December 31, 2004               | 98                                | 3,127             | 308          | 3,533            |
| 2005 restructuring                         | 3,976                             | 13,121            | 38           | 17,135           |
| Cash paid and write-offs during 2005       | (3,802)                           | (2,680)           | (42)         | (6,524)          |
| Reversal of previous restructuring         | (80)                              | (884)             | —            | (964)            |
| Accrual at December 31, 2005               | 192                               | 12,684            | 304          | 13,180           |
| Acquired from Segue                        | 3,507                             | 542               | —            | 4,049            |
| 2006 restructuring                         | 9,577                             | 3,177             | 446          | 13,200           |
| Cash paid and write-offs during 2006       | (8,904)                           | (4,800)           | (592)        | (14,296)         |
| Reversal of previous restructuring         | (194)                             | (52)              | (74)         | (320)            |
| Accrual at December 31, 2006               | 4,178                             | 11,551            | 84           | 15,813           |
| 2007 restructuring                         | 6,434                             | 5,152             | 321          | 11,907           |
| Cash paid and write-offs during 2007       | (5,776)                           | (5,119)           | (482)        | (11,377)         |
| Reversal of previous restructuring         | (515)                             | (138)             | —            | (653)            |
| Reclassification of previous restructuring | (98)                              | —                 | 98           | —                |
| Accrual at December 31, 2007               | <u>\$ 4,223</u>                   | <u>\$ 11,446</u>  | <u>\$ 21</u> | <u>\$ 15,690</u> |

Of the \$15.7 million in our restructuring accrual at December 31, 2007, \$9.9 million was in our short-term accrual and \$5.8 million was in our long-term accrual. The long-term accrual is related to the lease obligation for excess capacity at our Scotts Valley, California and Cupertino, California facilities. Our facility accruals represent our remaining lease payments less anticipated sublease income plus lease incentives for prospective tenants and other certain costs.

The total restructuring charges and related cash outlays are based on our current estimates, which may change materially if significant fluctuations in foreign currencies occur, if further consolidations are required or if actual lease-related expenditures or sublease income differ from amounts currently expected. We review the status of our restructuring activities quarterly and, if appropriate, record changes in estimates related to our restructuring obligations in current operations.

Because the benefits related to our restructuring activities are derived from management's estimates, which are based on currently available information, our restructurings may not achieve the benefits currently anticipated on the timetable or at the level currently contemplated.

*Amortization of other intangibles.* In 2007, we incurred \$0.4 million of amortization expense primarily from the acquisitions of Segue, TogetherSoft and Legadero, compared to \$0.6 million in 2006. The amortization expenses are related to intangible non-compete agreements and trade names as a result of our acquisitions. The decrease was due to the completion of the amortization of the TogetherSoft trade names intangible asset, partially offset by amortization expense related to the acquisition of Segue in April 2006.

In 2006, we incurred \$0.6 million of amortization expense primarily from the acquisitions of Segue, TogetherSoft and Legadero, compared to \$2.9 million in 2005. The amortization expenses are related to intangible non-compete agreements and trade names as a result of our acquisitions. The decrease was due to the completion of the amortization of the TogetherSoft non-compete intangible asset, partially offset by amortization expense related to the acquisition of Segue in April 2006.

*Acquisition-related expenses.* In 2007, we recorded \$2.3 million in acquisition-related expenses, which was primarily contingent consideration payable under the terms of the Legadero acquisition agreement. Acquisition-related expenses in 2006 consisted of \$3.8 million in contingent consideration payable under the terms of the TeraQuest and Legadero acquisition agreements. Acquisition-related expenses in 2005 consisted of \$1.6 million of contingent consideration payable under the terms of the TeraQuest acquisition agreement.

*Write-off of in-process research and development.* In 2006, as part of our acquisition of Segue, we purchased \$4.8 million of in-process research and development, or IPR&D, which had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately charged to operating expense upon completion of the acquisition in April 2006.

*Other charges.* In 2005, we acquired \$0.3 million of in-process research and development related to the acquisition of Legadero in October 2005. The acquired in-process research and development had not yet reached technological feasibility and had no alternative future use. Accordingly, these costs were charged to expense upon consummation of the acquisition. Additionally, we reversed \$0.3 million of liabilities that we did not expect to incur in connection with our acquisition of Starbase.

**Impairment of Goodwill**

|                              | 2007      | Change    |    | 2006 | Change |    | 2005 |
|------------------------------|-----------|-----------|----|------|--------|----|------|
|                              |           | \$        | %  |      | \$     | %  |      |
| Impairment of goodwill       | \$ 26,509 | \$ 26,509 | —% | \$ — | \$ —   | —% | \$ — |
| As percent of total revenues | 10%       |           |    | 0%   |        |    | 0%   |

Goodwill and identifiable intangibles are accounted for in accordance with SFAS No. 141 “*Business Combinations*”, or SFAS 141 and SFAS No. 142 “*Goodwill and Other Intangible Asset.*”, or SFAS 142. Effective January 1, 2007, we changed from reporting one segment to reporting two segments (Enterprise and CodeGear). As of January 1, 2007, we began utilizing a combination of a discounted cash flow and market approach and goodwill was allocated to each of the reporting segments. Please refer to Note 15 “Reportable Segments” below for more information on the accounting related to the reportable segments. Under SFAS 142, goodwill and other long-lived assets must be tested for impairment annually or in interim periods, if conditions indicate possible impairment. Impairment testing of goodwill is performed in two steps. First, the carrying value of the reporting unit is compared to the fair value of the reporting unit including the goodwill. If the carrying amount of the reporting unit is greater than the fair value of the reporting unit, we perform the second step. The second step of the impairment test, used to measure the amount of impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, the impairment loss shall be recognized as an operating expense in an amount equal to that excess. We performed our annual testing of goodwill for impairment during the third quarter of 2007 and no impairment was indicated as of September 30, 2007. At December 31, 2007, we took into consideration various data points when determining the implied fair value including discounted cash flows and market comparable transactions. Our estimated fair value requires management to make estimates and assumptions that impact the reporting value of goodwill and may result in future write downs beyond the current reduction. As a result of this testing, impairment of \$26.5 million was recorded against our CodeGear reporting segment.

We performed our goodwill impairment testing in the third quarter of 2006 based on a single reporting unit and concluded there was no impairment as of September 30, 2006. The market capitalization method was the primary method used to determine the fair values for SFAS 142 impairment purposes. We considered the establishment of two segments as a triggering event under FAS 142 and performed a goodwill allocation and impairment analysis at December 31, 2006 for our reporting segments (Enterprise and CodeGear). We used the cash flow method in determining fair values for goodwill allocation and impairment purposes and concluded there was no impairment for the goodwill allocated to each segment. We did not record impairment to goodwill during 2005.

**Gain on Investments, net**

In 2005, we sold an equity investment in privately held Trolltech A.S, which was previously determined to be impaired and written-off in fiscal 2002. We recognized a gain of \$4.7 million in 2005 on this transaction. Partially offsetting this gain was \$0.3 million of expense in 2005 related to a note receivable from a third-party for which collection is uncertain.

**Gain on Sale of Fixed Assets**

During 2006, we recognized a gain of \$1.7 million on the sale of property, encompassing land and office buildings, located at 1700 and 1800 Green Hills Road, Scotts Valley, California.

**Interest Income**

The following table presents our interest income for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                              | 2007     | Change   |      | 2006     | Change     |       | 2005     |
|------------------------------|----------|----------|------|----------|------------|-------|----------|
|                              |          | \$       | %    |          | \$         | %     |          |
| Interest income              | \$ 8,742 | \$ 5,574 | 176% | \$ 3,168 | \$ (2,341) | (42)% | \$ 5,509 |
| As percent of total revenues | 3%       |          |      | 1%       |            |       | 2%       |

Interest income consists primarily of interest earned on cash and cash equivalents. Interest income increased \$5.6 million in 2007 to \$8.7 million from \$3.2 million in 2006 and is primarily attributable to interest income from the cash generated from our Convertible Senior Notes offering that occurred in the first quarter of 2007.

During 2006, interest income was \$3.2 million, compared to \$5.5 million in 2005. The \$2.3 million decrease in interest income in 2006 was primarily attributable to a decrease in interest income as a result of a lower level of cash, cash equivalents and short-term investments. The decrease in cash, cash equivalents and short-term investments was a result of our acquisition of Segue in April 2006 which used approximately \$102.5 million of cash, net of cash acquired.

**Interest Expense**

The following table presents our interest expense for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                              | 2007     | Change   |        | 2006   | Change |     | 2005   |
|------------------------------|----------|----------|--------|--------|--------|-----|--------|
|                              |          | \$       | %      |        | \$     | %   |        |
| Interest expense             | \$ 5,449 | \$ 5,075 | 1,357% | \$ 374 | \$ 72  | 24% | \$ 302 |
| As percent of total revenues | 2%       |          |        | 0%     |        |     | 0%     |

The increase in interest expense of \$5.1 million in 2007, when comparing to 2006, was primarily attributable to interest incurred on our Convertible Senior Notes offering that occurred in the first quarter of 2007. The increase in interest expense, when comparing 2006 to 2005 was \$0.1 million.

**Other Expense**

The following table presents our other expense for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                              | 2007   | Change |    | 2006   | Change |        | 2005  |
|------------------------------|--------|--------|----|--------|--------|--------|-------|
|                              |        | \$     | %  |        | \$     | %      |       |
| Other expense                | \$ 790 | \$ —   | —% | \$ 790 | \$ 738 | 1,419% | \$ 52 |
| As percent of total revenues | 0%     |        |    | 0%     |        |        | 0%    |

Other expense consists primarily of realized and unrealized foreign currency transactions. The amount of foreign currency and other gains or losses we realize primarily represents fluctuations in the U.S. dollar versus the foreign currencies in which we conduct business.

## Income Tax Provision

The following table presents our income tax provision for 2007, 2006 and 2005 and dollar and percentage changes from the prior year (dollars in thousands):

|                              | 2007     | Change |     | 2006     | Change     |       | 2005     |
|------------------------------|----------|--------|-----|----------|------------|-------|----------|
|                              |          | \$     | %   |          | \$         | %     |          |
| Income tax provision         | \$ 3,136 | \$ 614 | 24% | \$ 2,522 | \$ (1,862) | (42)% | \$ 4,384 |
| As percent of total revenues | 1%       |        |     | 1%       |            |       | 2%       |

On a consolidated basis, we generated a pre-tax loss of \$58.5 million in 2007, \$49.4 million in 2006, and \$25.4 million in 2005. Our income tax provision, as a percentage of pre-tax loss, was 5%, 5% and 17% for 2007, 2006, and 2005, respectively. The change in income tax provision in 2007 as compared to 2006, both in absolute dollars and as a percentage, was largely attributable to an increase in foreign taxes on the income of our non-US subsidiaries. The change in income tax provision in 2006 as compared to 2005, both in absolute dollars and as a percentage, was largely attributable to a decrease in foreign taxes on the income of our non-US subsidiaries, plus a benefit of a release of tax contingency held for foreign tax audits. In 2007, 2006, and 2005, substantially all of our tax provision related to non-U.S. taxes.

Our effective tax rate is primarily dependent on the location of taxable profits (if any), the utilization of our net operating loss, or NOL, carryforwards in certain jurisdictions, the imposition of withholding taxes on revenues regardless of our profitability, and changes in contingency reserves.

At December 31, 2007, we recorded valuation allowances against substantially all of our deferred tax assets and all of our deferred tax assets at December 31, 2006. In accordance with SFAS 109 and based on all available evidence, on a jurisdictional basis, including our historical operating results, and the uncertainty of predicting our future income, the valuation allowance reduces our deferred tax assets to an amount that is more likely than not to be realized. The amount of the valuation allowance can be attributable to U.S. federal, state and certain foreign deferred tax assets primarily consisting of net operating loss carryovers, tax credit carryovers, accrued expenses, and other temporary differences.

Undistributed earnings of Borland's foreign subsidiaries amounted to approximately \$48.9 million as of December 31, 2007. Approximately \$29.9 million is considered to be non-permanently reinvested, and applicable residual U.S. and foreign withholding taxes of \$0.8 million have been provided. With respect to the balance of \$19 million of foreign undistributed earnings, applicable U.S. income and non-U.S. withholding taxes have not been provided as such earnings are considered to be permanently invested in foreign operations.

Refer to Note 8 of our notes to Consolidated Financial Statements for further information regarding the components of our income tax provision.

## Liquidity and Capital Resources

*Cash and cash equivalents and short-term investments.* Cash, cash equivalents and short-term investments were \$158.9 million at December 31, 2007, an increase of \$103.6 million from a balance of \$55.3 million at December 31, 2006. Cash, cash equivalents and short-term investments increased due to our debt offering that occurred in the first quarter of 2007. We issued 2.75% Convertible Senior Notes due 2012 in the aggregate principal amount of \$200 million to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended. We used approximately \$30 million of the net proceeds from the sale of the notes to repurchase approximately 5.9 million shares of our common stock. Working capital increased \$128 million during 2007 to \$117.4 million at December 31, 2007 from \$(10.6) million at December 31, 2006. The increase in working capital during 2007 was due principally to the increase in cash, cash equivalents and short-term investments. The components of working capital, net of foreign currency fluctuations, included decreases to accounts payable and accrued expenses of \$12.2 million, deferred revenues of \$7.9 million and prepaid expenses and other assets of \$2.9 million. These decreases to working capital in 2007 were partially offset by increases in accounts receivable of \$7.5 million and accrued interest of \$2.1 million.

*Net cash provided by and used in operating activities.* Net cash used by operating activities in 2007 was \$18.3 million, which included a net loss of \$61.7 million, non-cash related expenses of \$48.8 million and a \$0.8 million loss of fixed assets disposal. Working capital uses of cash included a decrease in accounts payable and accrued expenses, prepaid expenses and other assets and deferred revenue. These decreases to working capital were partially offset by a decrease in accounts receivable and an increase in accrued interest and other current and long-term liabilities.

Net cash used by operating activities in 2006 was \$28.1 million, which included a net loss of \$52.0 million, a decrease of net working capital sources of cash of \$3.3 million, non-cash related expenses of \$28.8 million and a \$1.7 million gain of fixed assets disposal. Non cash related expenses in 2006 included \$10.7 million of stock based compensation as a result of the adoption of SFAS 123R in 2006. Working capital uses of cash included an increase in accounts receivable, a decrease in deferred revenues and a decrease in income taxes payable. These decreases to working capital were partially offset by an increase in accounts payable and accrued expenses and a decrease in prepaid expenses and other assets. The increase in accounts payable and accrued expenses relates primarily to the timing of payments at the end of 2006. Net cash provided by operating activities in 2005 was \$8.6 million, which included a net loss of \$29.8 million, offset by net working capital sources of cash of \$23.3 million and non-cash related expenses of \$15.1 million. Working capital sources of cash included decreases in accounts receivable, an increase in deferred revenues and increases in current restructuring accruals. The decrease in accounts receivable relates primarily to a decrease in revenues in 2005. Deferred revenues increased due to an increase in bookings of maintenance contracts, and restructuring accruals increased due to charges associated with exiting a portion of an underutilized facility in Scotts Valley, California, during 2005. Working capital uses of cash resulted from a decrease in accounts payable and accrued expenses due to the timing of payments to our vendors at the end of 2005.

To the extent that non-cash items increase or decrease our future operating results, there will be no corresponding impact on our cash flows. After excluding the effects of these non-cash charges, the primary changes in cash flows relating to operating activities result from changes in working capital. Our primary source of operating cash flows is the collection of accounts receivable from our customers. Our operating cash flows are also impacted by fluctuations in our accounts payable due to the timing of payments to our vendors. We generally pay our vendors and service providers in accordance with the invoice terms and conditions. The timing of cash payments in future periods will be affected by the terms of accounts payable arrangements.

*Net cash provided by and used in investing activities.* Net cash used in investing activities during 2007 was \$111.3 million. During 2007, we had net purchases of short-term investments of \$106 million and purchases of property, plant and equipment of \$5.5 million.

Net cash provided by investing activities during 2006 was \$27.8 million. During 2006, sales and maturities of short-term investments totaled \$125.9 million. We sold the majority of our short-term investments and utilized \$102.5 million for the Segue acquisition, which closed in April 2006. Additionally, we used \$6.2 million for purchases of property, plant and equipment, offset by proceeds of \$11.0 million from the sale of the Scotts Valley building. In the future, we may utilize additional cash resources to fund other acquisitions or investments in other businesses, technologies or product lines.

Net cash used in investing activities during 2005 was \$1.0 million. During 2005 we had net sales of short-term investments of \$18.7 million and purchases of property and equipment of \$7.2 million. We also used \$12.7 million, net of cash acquired, to purchase Legadero and \$4.4 million, net of cash acquired, to purchase TeraQuest.

*Net cash provided by and used in financing activities.* Net cash provided by financing activities during 2007 was \$165.9 million, resulting primarily from net proceeds of \$194.2 million from the 2.75% Convertible Senior Notes offering issued in February 2007 and \$1.6 million received for the issuance of shares of our common stock from stock option exercises and from the purchase of shares by employees under our employee stock purchase plan. These proceeds were partially offset by approximately \$30 million used to repurchase approximately 5.9 million shares of our common stock on the open market. At December 31, 2007, \$59.3 million remains authorized for future repurchases.

Net cash provided by financing activities during 2006 was \$4.9 million, consisting mainly of cash received for the issuance of shares of our common stock from stock option exercises and from the purchase of shares by employees under our employee stock purchase plan.

Net cash used in financing activities during 2005 was \$29.5 million, consisting primarily of \$35.2 million used for the repurchase of our common stock, partially offset by \$5.7 million received for the issuance of shares of our common stock from stock option exercises and employee stock purchase plan purchases. In February 2004 and May 2005, our Board of Directors authorized increases to our existing discretionary stock repurchase program of \$30 million and \$75 million, respectively, increasing total discretionary repurchase authorizations to \$135 million.

*Operating Capital and Capital Expenditure Requirements.* We are currently operating at a net loss and there can be no assurance as to when we will return to profitability. As noted earlier in this section, our management team will continue its efforts to significantly reduce costs in the future. In order to fund our ongoing operations in future periods it will be necessary for us to achieve profitability and/or raise additional capital through debt or equity financings in the near future.

In February 2007, we completed a debt offering. We issued 2.75% Convertible Senior Notes due 2012 in the aggregate principal amount of \$200 million to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended. We used approximately \$30 million of the net proceeds from the sale of the notes to repurchase approximately 5.9 million shares of our common stock. We intend to use the balance of the net proceeds for general corporate purposes, including restructuring and potential opportunistic acquisitions.

As of December 31, 2007, we believed that our available cash and cash equivalents will be sufficient to meet our working capital and operating expense requirements for at least the 2008 fiscal year. Following our debt offering, our cash position has substantially improved. Nevertheless at some point in the future we may require additional funds for either operating or strategic purposes and may seek to raise the additional funds through public or private debt or equity financings. If we need to seek additional financing in the future, there is no assurance that this additional financing will be available, or if available, will be on reasonable terms and not dilutive to our stockholders.

*Currency.* Although we utilize foreign currency forward exchange contracts to reduce our foreign currency exchange rate risk, fluctuations of the United States dollar against the Euro, the United Kingdom Pound Sterling, the Australian and Singapore dollars and the Japanese Yen could harm our business. We cannot predict currency exchange rate fluctuations and there can be no assurance that foreign currency exchange rates will not have a material adverse impact on our future cash flows and operating results. Refer to Item 7A “Quantitative and Qualitative Disclosures About Market Risk” for additional discussion of foreign currency risk.

### **Contractual Obligations and Off-Balance Sheet Arrangements**

*Leases.* We lease certain of our office and operating facilities and certain of our furniture and equipment under various operating leases. In connection with our acquisition of Segue we acquired a capital lease for leasehold improvements on a facility in Austria. At December 31, 2007 the obligation totaled \$0.1 million which is payable through 2010.

## Table of Contents

Our operating leases expire at various times through 2021. At December 31, 2007, future minimum lease and sublease payments under non-cancelable operating leases and subleases and future minimum lease and sublease income under non-cancelable leases and subleases were as follows (in thousands):

|                               | <u>Less than<br/>1 Year</u> | <u>1-3<br/>Years</u> | <u>3-5<br/>Years</u> | <u>More than<br/>5 Years</u> | <u>Total</u>      |
|-------------------------------|-----------------------------|----------------------|----------------------|------------------------------|-------------------|
| Operating leases              | \$ 10,721                   | \$ 19,422            | \$ 7,418             | \$ 6,639                     | \$ 44,200         |
| Restructured operating leases | 5,914                       | 12,107               | 4,843                | —                            | 22,864            |
| Convertible senior notes      | —                           | —                    | 200,000              | —                            | 200,000           |
| Capital lease                 | 41                          | 84                   | —                    | —                            | 125               |
| Gross commitments             | 16,676                      | 31,613               | 212,261              | 6,639                        | 267,189           |
| Sublease income               | (3,056)                     | (8,580)              | (4,909)              | —                            | (16,545)          |
| Net commitments               | <u>\$ 13,620</u>            | <u>\$ 23,033</u>     | <u>\$ 207,352</u>    | <u>\$ 6,639</u>              | <u>\$ 250,644</u> |

The restructured operating leases above represent total lease commitments that are not associated with continuing operations and include exited facilities located in California, North Carolina and Sweden.

At December 31, 2007, we had a commitment regarding outsourcing arrangements for portions of our information technology operations. We terminated the contract for this service on January 30, 2008 with an effective date of July 30, 2008. We will incur a termination fee of \$0.9 million during 2008. This amount is not included in the operating lease commitments table above.

*Indemnifications.* For information regarding indemnifications, refer to Note 16 of the notes to Consolidated Financial Statements.

*Royalties.* We have certain royalty commitments associated with the shipment and licensing of certain products. Royalty expense, which was recorded in cost of license and other revenues on our Consolidated Statements of Operations, was \$2.6 million, \$3.4 million and \$3.5 million in 2007, 2006 and 2005, respectively.

*FIN 48 Liability.* Effective January 1, 2007, we adopted the provisions of FIN 48 (see Note 2). As of December 31, 2007, the liability for uncertain tax positions, net of offsetting tax benefits associated with the correlative effects of potential transfer pricing adjustments, state income taxes, and interest deductions is \$17.8 million, of which none is expected to be paid within one year. The balance of \$17.8 million is recorded in other long-term liabilities in the balance sheet.

*Off-Balance Sheet Arrangements.* As part of our ongoing business, we do not participate in material transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2007, we are not involved in any material unconsolidated transactions.

### Effect of New Accounting Pronouncements

For information regarding the effect of new accounting pronouncements, refer to Note 2 of the notes to Consolidated Financial Statements.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our results from operations are primarily a result of changes in interest rates and foreign currency exchange rates, as well as credit risk concentrations. To address the foreign currency exchange rate risk we enter into various foreign currency forward exchange contracts as described below. We do not use financial instruments for trading purposes.

## Foreign Currency Risk

A significant portion of our business is conducted in currencies other than the U.S. dollar. The functional currency for all of our foreign operations is the local currency of the country in which we have established business operations. Both revenues and operating expenses in each of these countries are in local currencies. This mitigates a portion of the exposure related to fluctuations in local currencies against the U.S. dollar. However, our financial results could still be adversely affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. In addition, we have established a program to minimize our foreign currency exposure utilizing forward exchange contracts to manage foreign currency exposures related to non-functional currency balances.

During 2007, we recorded net realized foreign exchange losses of \$1.3 million, included as part of other expense in our Consolidated Statements of Operations. The foreign exchange losses were primarily due to fluctuation in the Euro, the United Kingdom Pound Sterling, the Singapore dollar and the Japanese Yen versus the U.S. dollar. It is uncertain whether these currency trends will continue. In the future we may experience foreign exchange losses on our non-functional currency denominated receivables and payables to the extent that we have not mitigated our exposure utilizing foreign currency forward exchange contracts. Foreign exchange losses could have a materially adverse effect on our operating results and cash flows.

During 2007 we recorded unrealized foreign currency gain of \$1.2 million, in cumulative other comprehensive income on our Consolidated Balance Sheets, in part, due to foreign currency movements on our long-term inter-company balances. As of December 31, 2007, we had \$12.3 million, \$5.8 million, \$1.6 million, \$1.1 million and \$0.4 million in long-term inter-company receivable balances that will be settled in Singapore dollars, Indian Rupee, Brazilian Real, Australian dollars, and Japanese Yen, respectively and \$13.1 million in long-term inter-company payable balances that will be settled in Euros.

## Interest Rate Risk

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. During 2007, we initiated an investment strategy to achieve this objective by investing available funds in a portfolio of cash equivalents, short-term and long-term investments in a variety of securities, including but not limited to government and corporate securities, auction rate securities, time deposits and money market funds. These securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of estimated tax. We have limited exposure to risks related to auction rate securities as we have sold the remaining \$4 million in auction rate securities in January 2008, with an immaterial gain.

A hypothetical decrease on 100 basis points in interest rates earned on our investment portfolio would reduce annual pre-tax earning by approximately \$2 million. Actual results may differ from this estimate.

*Short-term investments.* At December 31, 2007, our cash and cash equivalents consisted primarily of commercial paper. Short-term investments consist of marketable securities, including but not limited to corporate notes, corporate bonds and medium-term notes in large U.S. institutions and governmental agencies and auction rate securities. Our marketable securities that are classified as short-term investments will mature in less than one year from December 31, 2007. Auction rate securities may have nominal maturity dates that are more than one year from December 31, 2007, but are classified as short term investments by the Company. These securities are classified as available-for-sale and are recorded at their estimated fair value.

*Long-term investments.* At December 31, 2007, long-term investments consisted of long-term marketable securities. We will periodically analyze our long-term investments for impairments that could be considered other than temporary. We classify our long-term investments as available-for-sale.

## **Credit Risks**

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and trade receivables. Our cash, cash equivalents and short-term investments are in high-quality securities placed with major banks and financial institutions and commercial paper. We have limited exposure to risk related to auction rate securities as we have sold the remaining \$4 million in auction rate securities in January 2008, with an immaterial gain. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. No single customer represented greater than 10% of total accounts receivable, net of allowances, as of December 31, 2007, 2006 or 2005.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**SELECTED QUARTERLY DATA**

We believe that period-to-period comparisons of our financial results should not be relied upon as an indication of future performance. Our revenues and results of operations have been subject to significant fluctuations, particularly on a quarterly basis, and our revenues and results of operations could fluctuate significantly quarter to quarter and year to year. Significant quarterly fluctuations in revenues will cause significant fluctuations in our cash flows and the cash and cash equivalents, accounts receivable and deferred revenue accounts on our balance sheet. Causes of such fluctuations may include the volume and timing of new orders and renewals, the sales cycle for our products, the introduction of new products, return rates, product upgrades or updates by us or our competitors, changes in product mix, changes in product prices and pricing models, trends in the computer industry, general economic conditions, extraordinary events such as acquisitions or litigation and the occurrence of unexpected events (in thousands, except per share data):

|  | <b>Fiscal 2007 (Unaudited)</b> |                          |                           |                          |
|--|--------------------------------|--------------------------|---------------------------|--------------------------|
|  | <b>Fourth<br/>Quarter</b>      | <b>Third<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>First<br/>Quarter</b> |
| Total revenues   | \$ 61,457                      | \$ 72,958                | \$ 63,400                 | \$ 70,966                |
| Gross profit   | \$ 48,642                      | \$ 59,274                | \$ 49,584                 | \$ 55,904                |
| Restructuring, amortization of other intangibles, acquisition-related expenses and other expenses(a) | \$ 9,259                       | \$ 1,588                 | \$ 2,213                  | \$ 874                   |
| Impairment of goodwill(b)  | \$ 26,509                      | \$ —                     | \$ —                      | \$ —                     |
| Net income (loss)  | \$ (41,706)                    | \$ 500                   | \$ (11,249)               | \$ (9,218)               |
| Net income (loss) per share-basic  | \$ (0.57)                      | \$ 0.01                  | \$ (0.16)                 | \$ (0.12)                |
| Net income (loss) per share-diluted  | \$ (0.57)                      | \$ 0.01                  | \$ (0.16)                 | \$ (0.12)                |
| Shares used in computing basic net income (loss) per share   | 72,533                         | 72,371                   | 72,201                    | 74,395                   |
| Shares used in computing diluted net income (loss) per share   | 72,533                         | 72,554                   | 72,201                    | 74,395                   |

|  | <b>Fiscal 2006 (Unaudited)</b> |                          |                           |                          |
|--|--------------------------------|--------------------------|---------------------------|--------------------------|
|  | <b>Fourth<br/>Quarter</b>      | <b>Third<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>First<br/>Quarter</b> |
| Total revenues   | \$ 75,772                      | \$ 82,366                | \$ 76,950                 | \$ 69,572                |
| Gross profit   | \$ 58,488                      | \$ 64,065                | \$ 58,540                 | \$ 53,775                |
| Restructuring, amortization of other intangibles, acquisition-related expenses and other expenses(a) | \$ 6,717                       | \$ 5,060                 | \$ 9,246                  | \$ 1,050                 |
| Net loss   | \$ (10,823)                    | \$ (13,142)              | \$ (19,049)               | \$ (8,939)               |
| Net loss per share-basic and diluted   | \$ (0.14)                      | \$ (0.17)                | \$ (0.25)                 | \$ (0.12)                |
| Shares used in computing basic and diluted net loss per share  | 77,622                         | 77,263                   | 76,876                    | 76,640                   |

- (a) Charges consisted of net restructuring costs resulting from workforce reduction activities, facility lease exit costs, amortization of other intangibles, acquisition-related expenses, acquired in-process research and development expenses, earn-out provisions associated with previous company and technology acquisitions. See Note 5 to the Consolidated Financial Statements.
- (b) CodeGear goodwill impairment charge. See Note 2 to the Consolidated Financial Statements.

Our financial statements included with this Form 10-K are set forth under Item 15 hereof.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**CEO and CFO Certifications**

Included as exhibits to this Annual Report on Form 10-K are Certifications of the Chief Executive Officer and the Chief Financial Officer. The first form of certification is required in accordance with Rule 13a-14(a) of the Securities Exchange Act of 1934 (the "Exchange Act"). This section of the Annual Report contains the information concerning the controls evaluation referred to in Rule 13a-14(a) Certifications and this information should be read in conjunction with the Rule 13a-14(a) Certifications for a more complete understanding of the topics presented.

**Evaluation of Our Disclosure Controls and Procedures**

Disclosure controls and procedures are those controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to the Exchange Act rules. This evaluation was done under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer and other management. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2007 to provide a reasonable level of assurance that the financial information we are required to disclose in the reports we file or submit under the Exchange Act was recorded, processed, summarized and reported accurately within the time periods specified in the SEC's rules and forms. Management believes that the financial statements included in this Annual Report on Form 10-K fairly present in all material respects our financial condition, results of operations and cash flows in accordance with the accounting principles generally accepted in the United States ("GAAP") for the periods presented.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and implemented by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may

become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2007 based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that our internal control over financial reporting was effective as of December 31, 2007.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

### **Changes in Internal Control Over Financial Reporting**

During the fourth quarter ended December 31, 2007, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2007 which our management concluded materially affected, or would be reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item with respect to identification of directors is incorporated by reference to the information contained in the section captioned “Proposal No. 1 — Election of Directors” in the Proxy Statement. For information with respect to our executive officers, see “Executive Officers” at the end of Part I, Item 1 of this report. Information with respect to Items 405 and 406 of Regulation S-K is incorporated by reference to the information contained in the sections of the Proxy Statement captioned “Section 16(a) Beneficial Ownership Reporting Compliance” and “Proposal No. 1 — Election of Directors — Code of Conduct. There will be no disclosure under Item 407(c)(3). Information with respect to Items 407(d)(4) and 407(d)(5) is incorporated by reference to the information contained in the sections of the Proxy Statement captioned “Proposal No. 1 — Election of Directors — Audit Committee.”

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required under this item is incorporated by reference to the information contained in the sections of the Proxy Statement captioned “Executive Officer Compensation” and “Proposal No. 1 — Election of Directors — Director Compensation.”

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated herein by reference to the information contained in the section captioned “Stock Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information required by this item will be set forth in the Proxy Statement for the 2008 Annual Meeting of Stockholders under the headings “Compensation Committee Interlocks and Insider Participation” and “Certain Relationships and Related Transactions,” which information is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item is incorporated herein by reference to the information contained in the section captioned “Proposal No. 2 — Ratification of Engagement of Independent Registered Public Accounting Firm” in the Proxy Statement.

**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

Upon written request, we will provide, without charge, a copy of our Annual Report on Form 10-K, including the consolidated financial statements and financial statement schedules for our most recent fiscal year. All requests should be sent to:

Borland Software Corporation  
Attention: Investor Relations  
8303 N. MoPac Expressway, Suite A-300  
Austin, TX 78759  
USA

Investor relations can also be reached at (512) 340-2200.

**Index to Exhibits**

Except as so indicated in Exhibit 32.1 and 32.2, the following exhibits are filed as part of, or incorporated by reference into, this Form 10-K:

| Exhibit Number | Description of Exhibit  | Incorporated by Reference |            |        | Filed Herewith |
|----------------|---|---------------------------|------------|--------|----------------|
|                |   | Form                      | Date       | Number |                |
| 2.1            | Agreement and Plan of Merger, dated as of February 7, 2006, by and among Segue Software, Inc., Borland Software Corporation and Beta Merger Sub, Inc. | 8-K                       | 2/8/2006   | 2.1    |                |
| 2.2            | Form of Voting Agreement, dated as of February 7, 2006, by and among Borland Software Corporation and the other parties signatory thereto             | 8-K                       | 2/8/2006   | 2.2    |                |
| 3.1            | Restated Certificate of Incorporation of Borland Software Corporation   | 10-Q                      | 8/9/2005   | 3.1    |                |
| 3.2            | Amended and Restated Bylaws of Borland Software Corporation   | 10-Q                      | 8/9/2005   | 3.2    |                |
| 4.1            | Stockholder Rights Agreement, dated as of October 26, 2001, between Borland Software Corporation and Mellon Investor Services, L.L.C.                 | 8-A                       | 10/31/2001 | 1      |                |
| 4.2            | Specimen Stock Certificate of Borland Software Corporation  | 10-Q                      | 5/13/2002  | 4.1    |                |
| 4.3            | Indenture by and between the Company and U.S. Bank National Association, as trustee, dated February 6, 2007   | 8-K                       | 2/08/2007  | 4.1    |                |
| 4.4            | Global Note representing the Company's 2.75% Convertible Senior Note due 2012   | 8-K                       | 2/08/2007  | 4.2    |                |

[Table of Contents](#)

| Exhibit Number | Description of Exhibit   | Incorporated by Reference |            |        | Filed Herewith |
|----------------|--|---------------------------|------------|--------|----------------|
|                |  | Form                      | Date       | Number |                |
| 4.5            | Registration Rights Agreement by and between the Company and J.P. Morgan Securities Inc., dated February 6, 2007                               | 8-K                       | 2/08/2007  | 4.3    |                |
| 10.1           | Form of Indemnity Agreement.+  | S-8                       | 9/26/1990  |        |                |
| 10.2           | 2005 Incentive Compensation Plan for Executive Officers.+  | 10-K                      | 3/25/2005  | 10.2   |                |
| 10.3           | 2006 Incentive Compensation Plan for Executive Officers.+  | 8-K                       | 3/20/2006  | 10.86  |                |
| 10.4           | 1985 Stock Option Plan.+   | 10-K                      | 3/28/2003  | 10.4   |                |
| 10.5           | Non-Employee Directors' Stock Option Plan.+  | 8-K                       | 12/27/1991 |        |                |
| 10.6           | 1992 Stock Option Plan.+   | S-8                       | 7/4/1992   |        |                |
| 10.7           | 1993 Stock Option Plan.+   | S-8                       | 3/11/1993  |        |                |
| 10.8           | 1997 Stock Option Plan.+   | S-8                       | 12/19/1997 | 4.4    |                |
| 10.9           | Amendment to the 1997 Stock Option Plan.+  | S-8                       | 9/1/2000   | 4.9    |                |
| 10.10          | Second Amendment to the 1997 Stock Option Plan.+   | S-8                       | 6/1/2001   | 4.6    |                |
| 10.11          | 1997 Employee Stock Purchase Plan.+  | S-8                       | 12/19/1997 | 4.5    |                |
| 10.12          | 1998 Nonstatutory Stock Option Plan.+  | 10-K                      | 3/28/2003  | 10.12  |                |
| 10.13          | 1999 Employee Stock Purchase Plan.+  | 10-Q                      | 8/9/2005   | 10.12  |                |
| 10.14          | Borland Software Corporation Dale Fuller Individual Stock Option Plan.+  | 10-K                      | 4/4/2000   | 10.18  |                |
| 10.15          | 2002 Stock Incentive Plan.+  | 8-K                       | 5/16/2005  | 99.2   |                |
| 10.16          | Form of Notice of Grant under the Discretionary Option Grant Program of the 2002 Stock Incentive Plan.+  | 10-Q                      | 11/9/2004  | 10.73  |                |
| 10.17          | Form of Stock Option Agreement under the Discretionary Option Grant Program of the 2002 Stock Incentive Plan.+                                 | 10-Q                      | 11/9/2004  | 10.74  |                |
| 10.18          | Form of Stock Issuance Agreement under the 2002 Stock Incentive Plan.+   | 10-K                      | 3/25/2005  | 10.17  |                |
| 10.19          | Form of Option Agreement under the Automatic Option Grant Program of the 2002 Stock Incentive Plan.+   | 10-K                      | 3/25/2005  | 10.18  |                |
| 10.20          | Form of Addendum to Stock Option Agreement under the 2002 Stock Incentive Plan (Twelve Months Acceleration).+                                  | 10-K                      | 3/25/2005  | 10.19  |                |
| 10.21          | Form of Addendum to Stock Option Agreement under the 2002 Stock Incentive Plan (50% Acceleration).+  | 10-K                      | 3/25/2005  | 10.20  |                |
| 10.22          | Form of Addendum to Stock Option Agreement under the 2002 Stock Incentive Plan (100% Acceleration).+   | 10-K                      | 3/25/2005  | 10.21  |                |
| 10.23          | Form of Stock Issuance Agreement under the Stock Issuance Program of the 2002 Stock Incentive Plan.+   | 10-Q                      | 11/8/2005  | 10.74  |                |
| 10.24          | Form of Acceleration Addendum to Stock Issuance Agreement under the Stock Issuance Program of the 2002 Stock Incentive Plan.+                  | 10-Q                      | 11/8/2005  | 10.75  |                |
| 10.25          | Form of Stock Option Agreement under the Discretionary Option grant program of the 2002 Stock Incentive Plan, as amended on October 27, 2005.+ | 10-Q                      | 11/8/2005  | 10.76  |                |
| 10.26          | Form of Acceleration Addendum to Stock Option Agreement under the Discretionary grant program of the 2002 Stock Incentive Plan.+               | 10-Q                      | 11/8/2005  | 10.77  |                |
| 10.27          | Borland Software Corporation 2003 Supplemental Stock Option Plan.+   | 8-K                       | 3/20/2006  | 10.87  |                |
| 10.28          | Segue Software Inc. Special Termination and Vesting Plan.+   | 8-K                       | 7/6/2006   | 10.89  |                |
| 10.29          | Starbase Corporation 2001 Stock Plan.+   | S-8                       | 1/24/2003  | 99.1   |                |



[Table of Contents](#)

| Exhibit Number | Description of Exhibit  | Incorporated by Reference |            |        | Filed Herewith |
|----------------|---|---------------------------|------------|--------|----------------|
|                |   | Form                      | Date       | Number |                |
| 10.30          | Starbase Corporation 1996 Stock Option Plan.+   | S-8                       | 1/24/2003  | 99.2   |                |
| 10.31          | Starbase Corporation NSO Stock Option Program.+   | S-8                       | 1/24/2003  | 99.3   |                |
| 10.32          | TogetherSoft Corporation 2000 Stock Plan.+  | S-8                       | 1/24/2003  | 99.6   |                |
| 10.33          | TogetherSoft Corporation 2001 Officer Stock Plan.+  | S-8                       | 1/24/2003  | 99.7   |                |
| 10.34          | TogetherSoft Corporation 2001 Non-U.S. Plan.+   | S-8                       | 1/24/2003  | 99.8   |                |
| 10.35          | TogetherSoft Corporation 2001 California Plan.+   | S-8                       | 1/24/2003  | 99.9   |                |
| 10.36          | Employment Agreement between Dale L. Fuller and Borland Software Corporation dated as of January 1, 2001.+                    | 10-K                      | 3/29/2001  | 10.20  |                |
| 10.37          | Amendment to Employment Agreement between Borland Software Corporation and Dale L. Fuller, dated July 1, 2003.+               | 10-Q                      | 11/14/2003 | 10.3   |                |
| 10.38          | Employment Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of August 7, 2002.+                    | 10-Q                      | 11/14/2002 | 99.3   |                |
| 10.39          | Amendment to Employment Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of October 22, 2002.+     | 10-Q                      | 11/14/2002 | 99.4   |                |
| 10.40          | Amendment to the Employment Agreement between Borland Software Corporation and Kenneth R. Hahn, dated as of June 7, 2004.+    | 10-Q                      | 8/9/2004   | 10.72  |                |
| 10.41          | Addendum to Stock Option Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of November 3, 2004.+    | 10-K                      | 3/25/2005  | 10.39  |                |
| 10.42          | Amendment to Employment Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of May 12, 2005.+         | 8-K                       | 5/16/2005  | 99.3   |                |
| 10.43          | Employment Agreement between Borland Software Corporation and Timothy J. Stevens, dated September 17, 2003.+                  | 10-Q                      | 11/14/2003 | 10.5   |                |
| 10.44          | Amendment to Employment Agreement between Borland Software Corporation and Timothy J. Stevens, dated March 4, 2004.+          | 10-K                      | 3/15/2004  | 10.34  |                |
| 10.45          | Addendum to Stock Option Agreement between Borland Software Corporation and Timothy J. Stevens dated as of November 3, 2004.+ | 10-K                      | 3/25/2005  | 10.44  |                |
| 10.46          | Separation and Mutual Release Agreement between the Company and Timothy J. Stevens dated June 16, 2006.+                      | 8-K                       | 6/19/2006  | 10.1   |                |
| 10.47          | Employment Agreement between Borland Software Corporation and Matthew Thompson, dated October 1, 2003.+                       | 10-Q                      | 11/14/2003 | 10.6   |                |
| 10.48          | Separation Agreement and Full and Final Release of Claims between the Company and Matthew Thompson, dated January 5, 2007.+   | 8-K                       | 1/08/2007  | 10.100 |                |
| 10.49          | Employment Agreement between the Company and Tod Nielsen, dated November 1, 2005.+  | 8-K                       | 11/8/2005  | 10.73  |                |
| 10.50          | Form of Addendum to Employment Offer Letters for Severance Benefits for Named Executive Officers.+                            | 10-Q                      | 11/8/2005  | 10.78  |                |
| 10.51          | 2003 Stock Option Agreement for Tod Nielsen under the 2003 Supplemental Stock Option Plan.+                                   | 10-K                      | 5/02/2006  | 10.52  |                |
| 10.52          | Addendum to Stock Option Agreement for Tod Nielsen.+  | 10-K                      | 5/02/2006  | 10.53  |                |
| 10.53          | Stock Issuance Agreement for Tod Nielsen.+  | 10-K                      | 5/02/2006  | 10.54  |                |
| 10.54          | Addendum to Stock Issuance Agreement for Tod Nielsen.+  | 10-K                      | 5/02/2006  | 10.55  |                |

[Table of Contents](#)

| Exhibit Number | Description of Exhibit  | Incorporated by Reference |            |        | Filed Herewith |
|----------------|---|---------------------------|------------|--------|----------------|
|                |   | Form                      | Date       | Number |                |
| 10.55          | Amendment to Employment Agreement between the Company and Tod Nielsen effective as of November 1, 2005.+  | 8-K/A                     | 11/23/2005 | 10.79  |                |
| 10.56          | Employment Offer Letter between the Company and Peter Morowski, dated June 3, 2006.+  | 8-K                       | 8/21/2006  | 10.93  |                |
| 10.57          | Addendum to Employment Offer Letter for Severance Benefits between the Company and Peter Morowski, dated June 3, 2006.+   | 8-K                       | 8/21/2006  | 10.94  |                |
| 10.58          | Employment Offer Letter between the Company and Greg Wrenn, dated September 7, 2006.+   | 8-K                       | 10/19/2006 | 10.96  |                |
| 10.59          | Addendum to Employment Offer Letter for Severance Benefits between the Company and Greg Wrenn, dated September 7, 2006.+  | 8-K                       | 10/19/2006 | 10.97  |                |
| 10.60          | Employment Agreement between the Company and Michael Sullivan, dated July 5, 2006.+   | 8-K                       | 7/6/2006   | 10.88  |                |
| 10.61          | Separation Agreement and Full and Final Release of Claims between the Company and Michael Sullivan, dated September 18, 2006.+  | 8-K                       | 9/22/2006  | 10.95  |                |
| 10.62          | Employment Offer Letter between the Company and Erik Prusch, dated October 2, 2006.+  | 8-K                       | 11/14/2006 | 10.98  |                |
| 10.63          | Addendum to Employment Offer Letter for Severance Benefits between the Company and Erik Prusch, dated October 2, 2006.+   | 8-K                       | 11/14/2006 | 10.99  |                |
| 10.64          | Employment Offer Letter between the Company and David Packer, dated January 4, 2007.+   | 8-K                       | 1/08/2007  | 10.101 |                |
| 10.65          | Addendum to Employment Offer Letter for Severance Benefits between the Company and David Packer.+   | 8-K                       | 1/08/2007  | 10.102 |                |
| 10.66          | Summary of Board Compensation.+   | 8-K                       | 1/17/2007  | 10.103 |                |
| 10.67          | Lease Agreement by and between Borland Software Corporation and ScanlanKemperBard Companies dated as of February 17, 2000.  | 10-K                      | 3/29/2001  | 10.44  |                |
| 10.68          | First Amendment to Lease Agreement by and between Borland Software Corporation and Enterprise Way Associates, LLC as dated as of September 30, 2000.                  | 10-K                      | 3/29/2001  | 10.45  |                |
| 10.69          | Second Amendment to Lease Agreement by and between Borland Software Corporation and Enterprise Way Associates, LLC as dated as of June 1, 2001.                       | 10-K                      | 3/28/2003  | 10.54  |                |
| 10.70          | Third Amendment to Lease Agreement by and between Borland Software Corporation and Enterprise Way Associates, LLC as dated as of November 1, 2001.                    | 10-K                      | 3/28/2003  | 10.55  |                |
| 10.71          | Office Lease and amendment between Starwood O.C. Portfolio I, L.L.C., and Starbase Corporation.   | 10-K                      | 3/28/2003  | 10.57  |                |
| 10.72          | Lease and amendment between Davis Sandler Three LLC and TogetherSoft Corporation.   | 10-K                      | 3/28/2003  | 10.58  |                |
| 10.73          | Agreement of Purchase and Sale dated May 30, 2006 between Borland Software Corporation and Fowler Property Acquisitions, LLC.   | 8-K                       | 6/5/2006   | 10.1   |                |
| 10.74          | First Amendment to Agreement of Purchase and Sale dated May 30, 2006 between Borland Software Corporation and Fowler Property Acquisitions, LLC, dated June 30, 2006. | 8-K                       | 7/7/2006   | 10.91  |                |

[Table of Contents](#)

| Exhibit Number | Description of Exhibit  | Incorporated by Reference |           |        | Filed Herewith |
|----------------|---|---------------------------|-----------|--------|----------------|
|                |   | Form                      | Date      | Number |                |
| 10.82          | Amendment to Stock Option Agreement between Borland Software Corporation and Dale L. Fuller, dated February 2, 2005.+                           | 10-Q                      | 5/10/2005 | 10.72  |                |
| 10.83          | Visual Studio Partner Master Agreement between Microsoft Corporation and Borland Software Corporation, dated August 11, 2006.                   | 10-K                      | 3/15/2007 | 10.97  |                |
| 21.1           | Subsidiaries of Borland Software Corporation.   |                           |           |        | X              |
| 23.1           | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.   |                           |           |        | X              |
| 31.1           | Certification of Tod Nielsen, Chief Executive Officer of Borland Software Corporation, pursuant to Rule 13a-14(a).                              |                           |           |        | X              |
| 31.2           | Certification of Erik Prusch, Chief Financial Officer of Borland Software Corporation, pursuant to Rule 13a-14(a).                              |                           |           |        | X              |
| 32.1           | Certification of Tod Nielsen, Chief Executive Officer of Borland Software Corporation, pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.++ |                           |           |        | X              |
| 32.2           | Certification of Erik Prusch, Chief Financial Officer of Borland Software Corporation, pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.++ |                           |           |        | X              |

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+ Management contract or compensatory plan or arrangement.

++ The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Borland Software Corporation under the Securities Act of 1933 or the Securities Exchange Act of 1934 whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

A copy of any exhibit will be furnished (at a reasonable cost) to any of our stockholders upon receipt of a written request. Such request should be sent to Borland Software Corporation, 8303 N. MoPac Expressway, Suite A-300, Austin, Texas USA 78759, Attn: Corporate Secretary.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Borland Software Corporation has duly caused this Form 10-K to be signed on our behalf by the undersigned, thereunto duly authorized, in the City of Austin, State of Texas, on the 7 day of March 2008.

BORLAND SOFTWARE CORPORATION  
(Registrant)

By: /s/ ERIK E. PRUSCH  
Erik E. Prusch  
*Senior Vice President and Chief Financial Officer  
(principal financial and accounting officer)*

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Tod Nielsen, Erik E. Prusch and Gregory J. Wrenn his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and conforming all that said attorney-in-fact, or his substitute or substitutes, do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of Borland Software Corporation and in the capacities as indicated on the 7 day of March 2008:

|                              |   |
|------------------------------|---|
| <u>/s/ JOHN F. OLSEN</u>     | <i>Chairman of the Board</i>  |
| <b>John F. Olsen</b>         |   |
| <u>/s/ TOD NIELSEN</u>       | <i>President, Chief Executive Officer and Director<br/>(principal executive officer)</i>                  |
| <b>Tod Nielsen</b>           |   |
| <u>/s/ ERIK E. PRUSCH</u>    | <i>Senior Vice President and Chief Financial Officer<br/>(principal financial and accounting officer)</i> |
| <b>Erik E. Prusch</b>        |   |
| <u>/s/ CHARLES F. KANE</u>   | <i>Director</i>   |
| <b>Charles F. Kane</b>       |   |
| <u>/s/ BRYAN LEBLANC</u>     | <i>Director</i>   |
| <b>Bryan LeBlanc</b>         |   |
| <u>/s/ T. MICHAEL NEVENS</u> | <i>Director</i>   |
| <b>T. Michael Nevens</b>     |   |
| <u>/s/ WILLIAM K. HOOPER</u> | <i>Director</i>   |
| <b>William K. Hooper</b>     |   |
| <u>/s/ ROBERT TARKOFF</u>    | <i>Director</i>   |



INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|   | <u>Page</u> |
|---|-------------|
| <a href="#">Report of Independent Registered Public Accounting Firm</a>   | F-2         |
| <a href="#">Consolidated Balance Sheets as of December 31, 2007 and 2006</a>  | F-3         |
| <a href="#">Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005</a>                  | F-4         |
| <a href="#">Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2007, 2006 and 2005</a> | F-5         |
| <a href="#">Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005</a>        | F-6         |
| <a href="#">Statements Consolidated of Cash Flows for the years ended December 31, 2007, 2006 and 2005</a>                  | F-7         |
| <a href="#">Notes to Consolidated Financial Statements</a>  | F-8         |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Borland Software Corporation:

In our opinion, the consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Borland Software Corporation and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting appearing under Item 9A, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation as of January 1, 2006. Additionally, as discussed in Note 2, the Company changed the manner which it accounts for uncertain tax positions as of January 1, 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

San Jose, California  
March 7, 2008

**BORLAND SOFTWARE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

|   | December 31,<br>2007                               | December 31,<br>2006 |
|---|--|----------------------|
|   | (In thousands, except par value and share amounts) |                      |
| <b><u>ASSETS</u></b>  |  |                      |
| Current assets:   |  |                      |
| Cash and cash equivalents   | \$ 90,805  | \$ 55,317            |
| Short-term investments  | 68,061   | —                    |
| Accounts receivable, net of allowances of \$6,096 and \$5,413, respectively   | 54,640   | 62,154               |
| Prepaid expenses  | 9,207  | 13,341               |
| Other current assets  | <u>5,106</u>                                       | <u>1,329</u>         |
| Total current assets  | <u>227,819</u>                                     | <u>132,141</u>       |
| Property and equipment, net   | 9,996  | 11,176               |
| Goodwill  | 226,688  | 253,356              |
| Intangible assets, net  | 31,658   | 40,521               |
| Long-term investments   | 37,970   | —                    |
| Other non-current assets  | <u>9,886</u>                                       | <u>6,705</u>         |
| Total assets  | <u>\$ 544,017</u>                                  | <u>\$ 443,899</u>    |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |  |                      |
| Current liabilities:  |  |                      |
| Accounts payable  | \$ 7,622   | \$ 15,591            |
| Accrued expenses  | 31,605   | 36,438               |
| Short-term restructuring  | 9,867  | 9,582                |
| Income taxes payable  | 2,315  | 14,925               |
| Deferred revenue  | 51,390   | 58,930               |
| Other current liabilities   | <u>7,575</u>                                       | <u>7,264</u>         |
| Total current liabilities   | <u>110,374</u>                                     | <u>142,730</u>       |
| Convertible senior notes  | 200,000  | —                    |
| Long-term restructuring   | 5,823  | 6,231                |
| Long-term deferred revenue  | 1,774  | 1,610                |
| Other long-term liabilities   | <u>23,976</u>                                      | <u>7,848</u>         |
| Total liabilities   | <u>341,947</u>                                     | <u>158,419</u>       |
| Commitments and Contingencies   |  |                      |
| Stockholders' equity:   |  |                      |
| Preferred stock; \$.01 par value; 1,000,000 shares authorized; 0 shares issued and outstanding                      | —  | —                    |
| Common stock; \$.01 par value; 200,000,000 shares authorized; 72,975,972 and 78,704,764 shares issued, respectively | 730  | 787                  |
| Additional paid-in capital  | 666,910  | 659,932              |
| Accumulated deficit   | (335,478)  | (273,892)            |
| Cumulative other comprehensive income   | <u>10,317</u>                                      | <u>9,121</u>         |
|   | 342,479  | 395,948              |
| Less common stock in treasury at cost, 21,158,980 and 15,275,899 shares, respectively                               | <u>(140,409)</u>                                   | <u>(110,468)</u>     |
| Total stockholders' equity  | <u>202,070</u>                                     | <u>285,480</u>       |
| Total liabilities and stockholders' equity  | <u>\$ 544,017</u>                                  | <u>\$ 443,899</u>    |

The accompanying notes are an integral part of these consolidated financial statements.

**BORLAND SOFTWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | Year Ended December 31,               |                    |                    |
|---|---------------------------------------|--------------------|--------------------|
|   | 2007                                  | 2006               | 2005               |
|   | (In thousands, except per share data) |                    |                    |
| License and other revenues  | \$ 137,358                            | \$ 165,886         | \$ 163,182         |
| Service revenues  | 131,423                               | 138,774            | 113,561            |
| Total revenues  | <u>268,781</u>                        | <u>304,660</u>     | <u>276,743</u>     |
| Cost of license and other revenues  | 6,014                                 | 7,439              | 8,884              |
| Cost of service revenues  | 40,918                                | 55,381             | 40,491             |
| Amortization of acquired intangibles and other charges  | 8,445                                 | 6,972              | 10,043             |
| Cost of revenues  | <u>55,377</u>                         | <u>69,792</u>      | <u>59,418</u>      |
| Gross profit  | <u>213,404</u>                        | <u>234,868</u>     | <u>217,325</u>     |
| Selling, general and administrative   | 176,206                               | 195,710            | 174,002            |
| Research and development  | 57,795                                | 70,178             | 57,687             |
| Restructuring, amortization of other intangibles,<br>acquisition-related expenses and other charges | 13,934                                | 22,073             | 20,611             |
| Impairment of goodwill  | 26,509                                | —                  | —                  |
| Total operating expenses  | <u>274,444</u>                        | <u>287,961</u>     | <u>252,300</u>     |
| Operating loss  | (61,040)                              | (53,093)           | (34,975)           |
| Gain on sale of investment, net   | —                                     | —                  | 4,372              |
| Gain on sale of fixed assets  | —                                     | 1,658              | —                  |
| Interest income   | 8,742                                 | 3,168              | 5,509              |
| Interest expense  | (5,449)                               | (374)              | (302)              |
| Other expense   | (790)                                 | (790)              | (52)               |
| Loss before income taxes  | <u>(58,537)</u>                       | <u>(49,431)</u>    | <u>(25,448)</u>    |
| Income tax provision  | <u>3,136</u>                          | <u>2,522</u>       | <u>4,384</u>       |
| Net loss  | <u>\$ (61,673)</u>                    | <u>\$ (51,953)</u> | <u>\$ (29,832)</u> |
| Net loss per share:   |                                       |                    |                    |
| Net loss per share — basic and diluted  | <u>\$ (0.85)</u>                      | <u>\$ (0.67)</u>   | <u>\$ (0.38)</u>   |
| Shares used in computing basic and diluted net loss per<br>share                                    | <u>72,875</u>                         | <u>77,096</u>      | <u>77,557</u>      |

The accompanying notes are an integral part of these consolidated financial statements.

**BORLAND SOFTWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

|   | Year Ended December 31, |                    |                    |
|---|-------------------------|--------------------|--------------------|
|   | <u>2007</u>             | <u>2006</u>        | <u>2005</u>        |
|   | (In thousands)          |                    |                    |
| Net loss  | \$ (61,673)             | \$ (51,953)        | \$ (29,832)        |
| Other comprehensive income (loss):  |                         |                    |                    |
| Foreign currency translation adjustments                                      | 1,182                   | 2,517              | (6,067)            |
| Fair market value adjustment for available-for-sale securities,<br>net of tax | <u>14</u>               | <u>72</u>          | <u>(72)</u>        |
| Comprehensive loss  | <u>\$ (60,477)</u>      | <u>\$ (49,364)</u> | <u>\$ (35,971)</u> |

**BORLAND SOFTWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

|   | Common Stock        |        | Additional<br>Paid in<br>Capital | Accumulated<br>(Deficit) | Treasury Stock      |              | Cumulative<br>Other<br>Comprehensive<br>Income | Deferred<br>Compensation | Total      |
|---|---------------------|--------|----------------------------------|--------------------------|---------------------|--------------|--|--------------------------|------------|
|   | Number of<br>Shares | Amount |                                  |                          | Number of<br>Shares | Amount       |  |                          |            |
| Balance at December 31, 2004  | 80,937              | \$ 809 | \$ 638,077                       | \$ (198,826)             | 9,999               | \$ (75,349)  | \$ 12,671                                      | \$ (1,002)               | \$ 376,380 |
| Employee stock option,<br>employee stock purchase<br>plan and other, net                  | 1,013               | 10     | 5,726                            | —                        | —                   | —            | —  | —                        | 5,736      |
| Issuance of restricted stock in<br>connection with TeraQuest<br>acquisition               | 87                  | 1      | 849                              | —                        | —                   | —            | —  | (850)                    | —          |
| Issuance of restricted stock, net   | 1,041               | 11     | 6,295                            | —                        | 34                  | —            | —  | (6,385)                  | (79)       |
| Repurchase of Common Stock  | (5,270)             | (53)   | —                                | —                        | 5,276               | (35,119)     | —  | —                        | (35,172)   |
| Amortization of TogetherSoft<br>option value  | —                   | —      | —                                | —                        | —                   | —            | —  | 41                       | 41         |
| Release of TogetherSoft<br>escrow shares  | (1)                 | —      | —                                | —                        | 1                   | —            | —  | —                        | —          |
| Amortization of TeraQuest<br>deferred compensation  | —                   | —      | —                                | —                        | —                   | —            | —  | 212                      | 212        |
| Amortization of deferred<br>compensation  | —                   | —      | —                                | —                        | —                   | —            | —  | 793                      | 793        |
| Fair market value adjustment<br>available-for-sale securities                             | —                   | —      | —                                | —                        | —                   | —            | (72)   | —                        | (72)       |
| Foreign currency translation<br>adjustments   | —                   | —      | —                                | —                        | —                   | —            | (6,067)  | —                        | (6,067)    |
| Net Loss  | —                   | —      | —                                | (29,832)                 | —                   | —            | —  | —                        | (29,832)   |
| Balance at December 31, 2005  | 77,807              | 778    | 650,947                          | (228,658)                | 15,310              | (110,468)    | 6,532  | (7,191)                  | 311,940    |
| Cumulative effect of<br>adjustments from the<br>adoption of SAB No. 108,<br>net of taxes  | —                   | —      | 1,460                            | 6,719                    | —                   | —            | —  | —                        | 8,179      |
| Adjusted balances as of<br>December 31, 2005  | 77,807              | 778    | 652,407                          | (221,939)                | 15,310              | (110,468)    | 6,532  | (7,191)                  | 320,119    |
| Employee stock option,<br>employee stock purchase<br>plan and other, net                  | 1,076               | 11     | 4,863                            | —                        | —                   | —            | —  | —                        | 4,874      |
| Issuance of restricted stock  | 363                 | —      | —                                | —                        | —                   | —            | —  | —                        | —          |
| Repurchase of Common Stock  | —                   | —      | —                                | —                        | (34)                | —            | —  | —                        | —          |
| Cancellation of restricted stock  | (390)               | —      | —                                | —                        | —                   | —            | —  | —                        | —          |
| Repurchases and retirements of<br>restricted stock  | (151)               | (2)    | (835)                            | —                        | —                   | —            | —  | —                        | (837)      |
| Amortization of restricted stock  | —                   | —      | 3,515                            | —                        | —                   | —            | —  | —                        | 3,515      |
| Stock-based compensation  | —                   | —      | 7,173                            | —                        | —                   | —            | —  | —                        | 7,173      |
| Reclassification of unearned<br>stock-based compensation<br>upon adoption of<br>SFAS 123R | —                   | —      | (7,191)                          | —                        | —                   | —            | —  | 7,191                    | —          |
| Fair market value adjustment<br>available-for-sale securities                             | —                   | —      | —                                | —                        | —                   | —            | 72   | —                        | 72         |
| Foreign currency translation<br>adjustments   | —                   | —      | —                                | —                        | —                   | —            | 2,517  | —                        | 2,517      |
| Net Loss  | —                   | —      | —                                | (51,953)                 | —                   | —            | —  | —                        | (51,953)   |
| Balance at December 31, 2006  | 78,705              | 787    | 659,932                          | (273,892)                | 15,276              | (110,468)    | 9,121  | —                        | 285,480    |
| Employee stock option,<br>employee stock purchase<br>plan and other, net                  | 453                 | 4      | 1,805                            | —                        | —                   | —            | —  | —                        | 1,809      |
| Issuance of restricted stock  | —                   | —      | —                                | —                        | —                   | —            | —  | —                        | —          |
| Repurchase of Common Stock  | (5,883)             | (60)   | —                                | —                        | 5,883               | (29,941)     | —  | —                        | (30,001)   |
| Cancellation of restricted stock  | (129)               | —      | —                                | —                        | —                   | —            | —  | —                        | —          |
| Repurchases and retirements of<br>restricted stock  | (170)               | (1)    | (820)                            | —                        | —                   | —            | —  | —                        | (821)      |
| Amortization of restricted stock  | —                   | —      | —                                | —                        | —                   | —            | —  | —                        | —          |
| Stock-based compensation  | —                   | —      | 4,405                            | —                        | —                   | —            | —  | —                        | 4,405      |
| Amortization of TeraQuest<br>deferred compensation  | —                   | —      | 66                               | —                        | —                   | —            | —  | —                        | 66         |
| Amortization of deferred<br>compensation  | —                   | —      | 1,563                            | —                        | —                   | —            | —  | —                        | 1,563      |
| Fair market value adjustment<br>available-for-sale securities                             | —                   | —      | —                                | —                        | —                   | —            | 14   | —                        | 14         |
| Foreign currency translation<br>adjustments   | —                   | —      | (41)                             | —                        | —                   | —            | 1,182  | —                        | 1,141      |
| Net Loss  | —                   | —      | —                                | (61,673)                 | —                   | —            | —  | —                        | (61,673)   |
| Balance at December 31, 2007  | 72,976              | 730    | 666,910                          | (335,565)                | 21,159              | (140,409)    | 10,317   | —                        | 201,983    |
| Cumulative effect of adjustments<br>from the adoption of FIN 48                           | —                   | —      | —                                | 87                       | —                   | —            | —  | —                        | 87         |
| Adjusted balances as of<br>December 31, 2007  | 72,976              | \$ 730 | \$ 666,910                       | \$ (335,478)             | 21,159              | \$ (140,409) | \$ 10,317                                      | —                        | \$ 202,070 |

The accompanying notes are an integral part of these consolidated financial statements.

**BORLAND SOFTWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Year Ended December 31, |                        |                  |
|---|-------------------------|------------------------|------------------|
|   | 2007                    | 2006<br>(In thousands) | 2005             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |                        |                  |
| Net loss  | \$ (61,673)             | \$ (51,953)            | \$ (29,832)      |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                         |                        |                  |
| Depreciation and amortization   | 14,709                  | 12,773                 | 18,403           |
| Stock-based compensation  | 6,033                   | 10,688                 | 1,046            |
| Provision for accounts receivable allowances  | 1,570                   | (2,952)                | 3,005            |
| Acquired in-process research & development charge   | —                       | 4,800                  | 300              |
| Developed technology impairment charge  | —                       | 497                    | —                |
| Impairment of goodwill  | 26,509                  | —                      | —                |
| Gain on sale of investment  | —                       | —                      | (4,680)          |
| Loss (gain) on disposal of fixed assets   | 751                     | (1,658)                | 30               |
| Loss on sale of subsidiary  | 226                     | —                      | —                |
| Changes in assets and liabilities, net of acquisitions:                                   |                         |                        |                  |
| Accounts receivable   | 7,497                   | 960                    | 4,435            |
| Prepaid expenses and other assets   | (2,856)                 | 5,456                  | 420              |
| Accounts payable and accrued expenses   | (12,213)                | 3,400                  | (1,509)          |
| Income taxes payable  | 297                     | (1,747)                | 363              |
| Short-term restructuring  | 192                     | 2,513                  | 2,041            |
| Deferred revenues   | (7,853)                 | (7,559)                | 7,738            |
| Long-term restructuring   | (408)                   | (3,208)                | —                |
| Other liabilities   | 8,914                   | (120)                  | 6,854            |
| Cash provided by (used in) operating activities   | <u>(18,305)</u>         | <u>(28,110)</u>        | <u>8,614</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |                        |                  |
| Purchases of property and equipment   | (5,495)                 | (6,187)                | (7,190)          |
| Proceeds from sale of fixed assets  | —                       | 11,015                 | —                |
| Acquisition of Legadero, net of cash acquired   | —                       | —                      | (12,744)         |
| Acquisition of TeraQuest, net of cash acquired  | —                       | —                      | (4,436)          |
| Acquisition of Segue Software, net of cash acquired                                       | —                       | (102,457)              | —                |
| Acquisition of developed technology   | —                       | (497)                  | —                |
| Proceeds from the sale of an investment   | —                       | —                      | 4,680            |
| Proceeds from the sale of subsidiary  | 178                     | —                      | —                |
| Purchases of investments  | (155,859)               | —                      | (328,000)        |
| Sales and maturities of investments   | 49,878                  | 125,944                | 346,706          |
| Cash provided by (used in) investing activities   | <u>(111,298)</u>        | <u>27,818</u>          | <u>(984)</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                         |                        |                  |
| Issuance of convertible senior notes  | 194,230                 | —                      | —                |
| Proceeds from issuance of stock options, employee stock purchase plan and other, net      | 1,612                   | 4,863                  | 5,657            |
| Repurchase of common stock  | (29,941)                | —                      | (35,172)         |
| Cash provided by (used in) financing activities   | <u>165,901</u>          | <u>4,863</u>           | <u>(29,515)</u>  |
| Effect of exchange rate changes on cash   | (810)                   | 1,671                  | (5,472)          |
| Net increase (decrease) in cash and cash equivalents                                      | 35,488                  | 6,242                  | (27,357)         |
| Beginning cash and cash equivalents   | 55,317                  | 49,075                 | 76,432           |
| Ending cash and cash equivalents  | <u>\$ 90,805</u>        | <u>\$ 55,317</u>       | <u>\$ 49,075</u> |
| Cash paid during the year for:  |                         |                        |                  |
| Interest  | \$ 3,291                | \$ 300                 | \$ 302           |
| Income taxes, net of refunds  | \$ 2,209                | \$ 3,715               | \$ 752           |
| Supplemental disclosure of non-cash transactions:   |                         |                        |                  |
| Assets acquired under capital lease   | \$ —                    | \$ —                   | \$ —             |
| Deferred tax asset effect of acquired tax attributes, net of valuation allowance          | \$ 12,470               | \$ 17,835              | \$ 1,977         |

The accompanying notes are an integral part of these consolidated financial statements.

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2007**

**NOTE 1. THE COMPANY**

We were incorporated in California in 1983 and reincorporated in Delaware in 1989. We maintain our corporate offices at 8308 N. MoPac Expressway, Suite A-300, Austin, Texas 78759, and our main telephone number at that location is (512) 340-2200. Our trading symbol on the Nasdaq Stock Market is "BORL." We maintain an Internet website at <http://www.borland.com>.

Borland is a leading vendor of Open Application Lifecycle Management solutions, or ALM, which represents the segment of the ALM market in which vendors' solutions are flexible enough to support a customer's specific processes, tools and platforms. Open ALM is a new, customer-centric approach to helping IT organizations transform software delivery into a managed, efficient and predictable business process. We offer a combination of software products as well as consulting and education services to help our customers better manage the growing complexity of software development. Our goal is to provide customers with a foundation which will allow them to consistently deliver software on-time, on-budget and with increased business value.

We also provide integrated development environment, or IDE, products, which we operate out of our CodeGear division. Effective January 1, 2007, consistent with how we manage our business we changed from reporting one segment to reporting two segments: Enterprise and CodeGear. See Note 15 for more information on our reportable segments.

In April 2006, we completed the acquisition of publicly traded Segue Software, Inc. The transaction was valued at approximately \$105 million and was funded with existing cash on hand. Segue was a Massachusetts-based provider of solutions that defined, measured, managed and improved software quality throughout the entire application lifecycle. Refer to Note 6 below for additional information regarding Segue.

In October 2005, we completed the acquisition of privately held Legadero Software, Inc., for \$7.6 million in cash and transaction costs plus contingent consideration of \$5.4 million for retention payments to be earned through the continued employment of certain key employees. Legadero was a Texas-based provider of IT management and governance solutions for software development and delivery.

In January 2005, we completed the acquisition of privately held TeraQuest Metrics, Inc., for \$5.9 million in cash and transaction costs. TeraQuest was a Texas-based consulting firm focusing on software improvement, quality assurance and risk management for corporate and government software development organizations.

Refer to Note 6 below for additional information regarding our acquisitions.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include our accounts and the accounts of all of our wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

***Management Estimates and Assumptions***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Key estimates include sales returns and allowances, bad debt reserves, restructuring charges, taxes, valuation of goodwill and intangibles and occasionally percentage-of-completion evaluations. Actual results could differ from those estimates.

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Basis of Presentation***

Certain prior period amounts have been reclassified in order to be consistent with current financial statement presentation.

***Revenue Recognition***

We derive revenue from licenses of our software and sales of related services, which include, post-contract customer support, or PCS, consulting and education.

We recognize license fees on contracts, which do not involve significant implementation or integration essential to the functionality of our products upon delivery when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is probable. For arrangements with multiple elements, we determine the value for services based upon vendor specific objective evidence, or VSOE, in accordance with American Institute of Certified Public Accountants Statement of Position, “*Software Revenue Recognition*,” or SOP 97-2, and related accounting literature. VSOE for the consulting services element is based upon the standard rates we charge for services, given the complexity of the services and experience of the professional performing the services, or the amount charged on similar transactions. VSOE for annual PCS is based on the stated future renewal rates, if substantive, included in the contracts, the amount charged on a similar transaction or other specific evidence. We recognize revenue for the license portion of a multiple element arrangement based upon the residual contract value as prescribed by SOP No. 98-9, “*Modification of SOP No. 97-2 with Respect to Certain Transactions*.” We assess collectability based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. If we determine the collection of a fee is not probable, we defer the fee and recognize revenue at the time collection becomes probable, which is generally upon receipt of payment. If we determine that a fee is not fixed or determinable, we defer the fee and recognize revenue as the fee becomes due. We generally recognize revenue for software licensed for a specific time period, or license term, ratably over the term of the license.

Historically, we developed solutions providing specific functionality to certain hardware vendors. These solutions may involve significant implementation or integration essential to the functionality of our products. We recognize license and service revenues associated with contracts involving significant implementation, integration or new functionality, either on a percentage-of-completion basis or a completed-contract basis depending on whether or not we can obtain reliable estimates of the costs to complete the work. Percentage-of-completion accounting often involves complex accounting decisions, judgments and estimates regarding future costs and recoverability of unbilled amounts. We classify revenues from these arrangements as license and/or service revenues, based upon the estimated fair value of each element based upon VSOE. Provisions for estimated contract losses are recognized in the period in which the loss becomes probable and can be reasonably estimated in accordance with SOP No. 81-1, “*Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.” During 2007, 2006 and 2005 we did not account for any consulting contracts on a completed-contract basis or a percentage of-completion basis.

Service revenues from consulting and education services related to the implementation of our software are recognized when services are performed. Service revenues from our process consulting are recognized based on when services are performed or when certain milestones have been met, depending on our arrangement with the customer. For process consulting services, we recognize revenue in accordance with the SEC Staff Accounting Bulletin No. 104, “*Revenue Recognition*,” or SAB 104.

Service revenue from PCS is recognized ratably over the support period, which is generally one year.

Net revenue on our products held by our distributors is recognized upon sell-through to their customers. We maintain allowances for returns for all unsold products held by our distributors. Additionally, we maintain allowances for product returns from our channel resellers and end users, whose revenues are recognized on a sell-in basis, based upon historical return rates, current economic trends, changes in customer demand and

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

acceptance of our products. Management makes significant judgments and estimates when establishing our sales returns and other allowances, especially when concerning channel resellers. The provision for sales returns and rebates amounted to \$(0.1) million, \$(2.4) million and \$2.7 million for the years ended December 31, 2007, 2006 and 2005, respectively. The reserve for sales returns and rebates was \$1.8 million and \$2.2 million as of December 31, 2007 and 2006, respectively. The provision for sales returns and rebates is recorded as a reduction to license and other revenues in the period that the accrual is considered necessary. The reserve balance is recorded in the balance sheet as an accounts receivable allowance. If future returns and rebates increase over historical levels, additional allowances may be required.

***Basic and Diluted Net Income (Loss) per Share***

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and conversion of our convertible debt (using the treasury stock method).

The following is a reconciliation of the computation of basic and diluted net loss per share (in thousands, except per share data):

|  | <u>Year Ended December 31,</u> |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | <u>2007</u>                    | <u>2006</u>      | <u>2005</u>      |
| <b>Numerator:</b>  |                                |                  |                  |
| Net loss   | \$ (61,673)                    | \$ (51,953)      | \$ (29,832)      |
| <b>Denominator:</b>  |                                |                  |                  |
| Denominator for basic net loss per share — weighted average shares                           | 72,875                         | 77,096           | 77,557           |
| <b>Effect of dilutive securities:</b>  |                                |                  |                  |
| Employee stock options   | —                              | —                | —                |
| Restricted common shares   | —                              | —                | —                |
| Denominator for diluted net loss per share — weighted-average shares and assumed conversions | <u>72,875</u>                  | <u>77,096</u>    | <u>77,557</u>    |
| <b>Net loss per share attributable to common stockholders:</b>                               |                                |                  |                  |
| Net loss per share — basic and diluted   | <u>\$ (0.85)</u>               | <u>\$ (0.67)</u> | <u>\$ (0.38)</u> |

The computation of diluted net loss per share for the years ended December 31, 2007, 2006 and 2005 excluded the impact of all outstanding options to purchase 13.3 million, 15.6 million and 14.1 million shares of common stock, respectively, and 481,000, 1 million and 451,000 shares of non-vested restricted common stock awards, respectively, because such impacts would be antidilutive due to our net loss in each of the years ended December 31, 2007, 2006 and 2005. In addition, the dilutive net loss per share calculation for the year ended December 31, 2007, excludes 30 million shares, issuable upon conversion of our 2.75% Convertible Senior Notes due February 15, 2012, calculated using the “if converted method”, due to our net loss in the period. See Note 9 for more information on our Convertible Senior Notes.

***Cash, Cash Equivalents and Short-Term and Long-Term Investments***

We consider all highly liquid investments having an original maturity of 90 days or less to be cash equivalents. Short and long-term investments are classified as securities available-for-sale. Securities are carried at fair value,

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

using the specific identification method. Unrealized gains and losses, net of tax, are excluded from earnings and reported as a component of cumulative other comprehensive income (loss).

***Foreign Currency and Forward Contracts***

The functional currency of our foreign subsidiaries is their local currency. The balance sheet accounts of these subsidiaries are translated into U.S. dollars at the exchange rate as of the balance sheet date. Monthly revenues, costs and expenses are translated using the weighted-average rate for that month. Resulting exchange gains and losses are reported as a component of cumulative other comprehensive income within stockholders' equity.

A significant portion of our business is conducted in currencies other than the United States dollar. We have established a hedge program utilizing forward contracts to minimize our exposure to foreign currency fluctuations. The objective of this program is to enter into forward contracts to sell or buy currencies at the time a non-functional currency denominated receivable or payable is recorded to offset the impact of translation. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, the forward contracts are valued and reported on the financial statements. The gains and losses on the contracts generally offset the gains and losses on the underlying transactions. The net loss recorded on the Consolidated Statements of Operations related to the forward contracts and underlying transactions was \$(0.1) million, \$(1.1) million and \$(0.5) million for the years ended December 31, 2007, 2006, and 2005, respectively. These foreign exchange gains and losses are included in other expense on the Consolidated Statements of Operations. All of our foreign exchange contracts mature in 30 days or less.

Certain inter-company balances are designated as long-term. Exchange gains and losses associated with these long-term inter-company balances were recorded as a component of cumulative other comprehensive income on the Consolidated Balance Sheets. As of December 31, 2007, we had \$12.3 million, \$5.8 million, \$1.6 million, \$1.1 million and \$0.4 million in long-term inter-company receivable balances that will be settled in Singapore dollars, Indian Rupee, Brazilian Real, Australian dollars, and Japanese Yen, respectively.

***Financial Instruments***

The fair value of our financial instruments, including cash and cash equivalents, short-term and long-term investments, accounts and notes receivable, accrued expenses, accounts payable, forward exchange contracts and convertible debt is based upon the present value of the expected cash flows and approximate carrying values.

***Concentration of Credit Risk***

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term and long-term investments and trade accounts receivable. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We place our cash, cash equivalents and short-term and long-term investments in a variety of financial instruments, including but not limited to government and corporate securities, auction rate securities, time deposits and money market funds. These securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated comprehensive income (loss), net of estimated taxes.

We offer credit terms on the sale of our software products to distributors, retail dealers and certain end-user customers. We perform ongoing credit evaluations of our customers' financial condition and, generally, require no collateral from our customers. We maintain an allowance for uncollectible accounts receivable based upon the expected collectability of all accounts receivable. A specific bad debt reserve of up to 100% of the invoice value is provided for certain problematic customer balances. A reserve is established for all other accounts based on the age of the invoices. Delinquent account balances are written-off after management has determined that the likelihood of collection is not probable. Additions (reversals) to the allowance for doubtful accounts were \$1.6 million,

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

\$(0.5) million and \$0.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. Charges against the allowance were \$0.9 million, \$0.5 million and \$0.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

No single customer represents greater than 10% of total accounts receivable, net of allowances, as of December 31, 2007 or 2006 and no single group or customer represented greater than 10% of our total revenues for the years ended December 31, 2007, 2006 or 2005.

We are exposed to credit loss in case of non-performance by counterparties to foreign exchange contracts, but we do not anticipate non-performance by these counterparties.

***Valuation of Long-Lived Assets***

In accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” or SFAS 144, we evaluate the accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed. SFAS 144 requires recognition of impairment of long-lived assets if the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset for assets to be held and used, or the amount by which the carrying value exceeds the fair market value less cost to dispose for assets to be disposed. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved. No impairment was recorded in 2007, 2006 and 2005.

***Property and Equipment***

Property and equipment is stated at cost and depreciated using the straight-line method over the following estimated useful lives:

|                                   |                                      |
|-----------------------------------|--------------------------------------|
| Buildings                         | 31.5 years                           |
| Computer equipment                | 3 to 5 years                         |
| Furniture, fixtures and equipment | 5 years                              |
| Leasehold improvements            | Shorter of lease term or useful life |

Depreciation and amortization expense for property and equipment for the years ended December 31, 2007, 2006 and 2005 was \$5.8 million, \$5.9 million and \$5.5 million, respectively. The costs of maintenance and repairs are expensed as incurred. The costs of assets and related accumulated depreciation are removed from the accounts upon retirement or disposition and any resulting gain or loss is reported as income or expense.

We capitalize costs relating to internal use software in accordance with the provisions of SOP No. 98-1, “*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.” Software development costs, including costs incurred to purchase software, are capitalized beginning when we have determined certain factors are present including, among others, that technology exists to achieve the performance requirements, and/or buy versus internal development decisions have been made. Capitalization of software costs ceases when the software is substantially complete, is ready for its intended use, and is amortized over its estimated useful life using the straight-line method. We had \$1.4 million, \$1.5 million and \$2.2 million in unamortized internal use software costs as of December 31, 2007, 2006 and 2005, respectively. We amortized \$0.9 million, \$1.6 million and \$0.2 million in costs associated with internal use software during 2007, 2006 and 2005, respectively. These costs are amortized over a useful life ranging from three to five years.

We apply SFAS No. 143, “*Accounting for Asset Retirement Obligations*,” or SFAS 143, for the recognition and measurement of liabilities for asset retirement obligations and the associated asset retirement costs. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized and included as part of the

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

carrying value of the long-lived asset and amortized over the useful life of the asset. Subsequent to the initial measurement, we accrete the liability in relation to the asset retirement obligation over time and the accretion expense is recorded as an operating expense. At December 31, 2007 and 2006, the asset retirement obligations, related to our restoration obligations for certain of our facilities, were \$0.5 million and \$0.6, respectively.

***Stock-Based Compensation Plans***

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), using the modified prospective transition method, and therefore have not restated prior periods’ results. Under this method, we recognize stock-based compensation expense for all share-based payment awards granted after January 1, 2006 and granted prior to but not yet vested as of January 1, 2006, in accordance with SFAS 123R. SFAS 123R supersedes previous accounting under Accounting Principles Board Opinion (“APB”) No. 25 *Accounting for Stock Issued to Employees* (“APB 25”), and also amends SFAS No. 95, *Statement of Cash Flows*. In March 2005, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 107 providing supplemental implementation guidance for SFAS 123R. We have applied the provisions of SAB No. 107 in our adoption of SFAS 123R. Our fiscal year 2007 and 2006 financial results reflect the impact of SFAS 123R. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation expense net of an estimated forfeiture rate and recognize compensation cost for only those shares expected to vest on a straight-line basis over the requisite service period of the award.

Prior to SFAS 123R adoption, we accounted for share-based payment awards using the intrinsic value method in accordance with APB 25. Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in our Consolidated Statements of Operations for the periods presented, because the exercise price of our stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant. Prior to January 1, 2006, the stock-based compensation expense was mainly comprised of compensation associated with non-employee equity awards, stock options assumed from business combinations and stock options granted before our initial public offering.

Upon adoption of SFAS 123R, we selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value for stock-based awards. The Black-Scholes model requires the use of highly subjective and complex assumptions which determine the fair value of stock-based awards, including the option’s expected term and the price volatility of the underlying stock. The value of the portion of the post adoption award that is ultimately expected to vest is recognized as expense over the requisite service (vesting) periods on a straight-line basis in our Consolidated Statements of Operations and the expense has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to fiscal year 2006, we accounted for forfeitures as they occurred for the purposes of pro forma information under SFAS No. 123, as disclosed in our notes to Consolidated Financial Statements for the related periods. See Note 12 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)***Prior Years Pro Forma Disclosure*

If the fair value based method prescribed by SFAS 123R had been applied in measuring employee stock-based compensation expenses in fiscal years 2005, the pro forma effect on net loss and net loss per share would have been as follows (in thousands, except income per share amounts):

|   | <u>Year Ended<br/>December 31,<br/>2005</u> |
|---|---|
| Net loss:   |   |
| Net loss  | \$ (29,832)                                 |
| Stock compensation adjustment — intrinsic value, net of tax | 1,166                                       |
| Stock compensation expense, net of tax                      | <u>(29,077)</u>                             |
| Pro Forma   | <u>\$ (57,743)</u>                          |
| Net loss per share:   |   |
| As reported basic and diluted                               | \$ (0.38)                                   |
| Pro Forma basic and diluted                                 | \$ (0.74)                                   |

**Research and Development**

Costs incurred in the research and development of new software products are expensed as incurred until technological feasibility is established. Software localization projects are outsourced to third-party developers. We capitalize software development in accordance with the provisions of SFAS 86, “*Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.*” Software development costs begin to be capitalized at the time a product’s technological feasibility is established and end when the product reaches the working model stage. To date, products and enhancements have generally reached technological feasibility and have been released for sale at substantially the same time and all research and development costs have been expensed.

**Goodwill and Acquired Intangibles**

Goodwill represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets acquired in various acquisitions, net of assumed liabilities. Amortization of both purchased technology and maintenance contracts along with impairment of purchase technology charged to cost of revenues during the years ended December 31, 2007, 2006 and 2005 totaled \$8.4 million, \$7.0 million and \$10.0 million, respectively. Amortization of other acquired intangibles charged to operating expenses during the years ended December 31, 2007, 2006 and 2005 was \$0.4 million, \$0.6 million and \$2.9 million, respectively. We had \$31.7 million and \$40.5 million in unamortized acquired intangibles at December 31, 2007 and 2006, respectively. We also had \$226.7 million and \$253.4 million of unimpaired goodwill at December 31, 2007 and 2006, respectively.

Goodwill and identifiable intangibles are accounted for in accordance with SFAS No. 141 “*Business Combinations*”, or SFAS 141 and SFAS No. 142 “*Goodwill and Other Intangible Asset.*”, or SFAS 142. Effective January 1, 2007, we changed from reporting one segment to reporting two segments (Enterprise and CodeGear). As of January 1, 2007, we began utilizing a combination of a discounted cash flow and market approach and goodwill was allocated to each of the reporting segments. Please refer to Note 15 “Reportable Segments” below for more information on the accounting related to the reportable segments. Under SFAS 142, goodwill and other long-lived assets must be tested for impairment annually or in interim periods, if conditions indicate possible impairment. Impairment testing of goodwill is performed in two steps. First, the carrying value of the reporting unit is compared to the fair value of the reporting unit including the goodwill. If the carrying amount of the reporting unit is greater than the fair value of the reporting unit, we perform the second step. The second step of the impairment test, used to

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

measure the amount of impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, the impairment loss shall be recognized as an operating expense in an amount equal to that excess. We performed our annual testing of goodwill for impairment during the third quarter of 2007 and no impairment was indicated as of September 30, 2007. At December 31, 2007, we took into consideration various data points when determining the implied fair value including discounted cash flows and market comparable transactions. Our estimated fair value requires management to make estimates and assumptions that impact the reporting value of goodwill and may result in future write downs beyond the current reduction. As a result of this testing, impairment of \$26.5 million was recorded against our CodeGear reporting segment.

We performed our goodwill impairment testing in the third quarter of 2006 based on a single reporting unit and concluded there was no impairment as of September 30, 2006. The market capitalization method was the primary method used to determine the fair values for SFAS 142 impairment purposes. We considered the establishment of two segments as a triggering event under FAS 142 and performed a goodwill allocation and impairment analysis at December 31, 2006 for our reporting segments (Enterprise and CodeGear). We used the cash flow method in determining fair values for goodwill allocation and impairment purposes and concluded there was no impairment for the goodwill allocated to each segment. We did not record impairment to goodwill during 2005.

**Advertising Costs**

We expense the production costs of advertising, including direct response, the first time the advertising takes place. Advertising expense was \$1.8 million, \$1.9 million and \$3.2 million during the years ended December 31, 2007, 2006 and 2005, respectively. We also fund certain advertising activities of our reseller channel. These costs are treated as advertising expenses under EITF Issue No. 01-09, "*Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products,*" or EITF 01-09, as we have deemed that the identifiable benefit is sufficiently separable from the customer's purchase of our product and the fair value of that benefit is reasonably estimable. The amounts related to funded advertising were \$0.5 million, \$0.9 million and \$1.2 million during the years ended December 31, 2007, 2006 and 2005, respectively.

**Income Taxes**

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Deferred income taxes are recorded in accordance with SFAS No. 109, "*Accounting for Income Taxes,*" or SFAS 109. Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. SFAS 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not to occur. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in future years in appropriate tax jurisdictions to realize a benefit from the reversal of temporary differences and from net operating loss carryforwards. Based on the weight of the available evidence, we have provided a valuation allowance against a substantial amount of our net deferred tax assets. Management will continue to evaluate the realizability of the deferred tax asset and its related valuation allowance. If our assessment of the deferred tax assets or the corresponding valuation allowance were to change, we would record the related adjustment to income during the period in which we make the determination. Our tax rate may also vary based on our results and the mix of income or loss in domestic and foreign tax jurisdictions in which we operate.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We record liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and to the extent to which, additional taxes may be due. If we

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

ultimately determine that payment of these amounts is unnecessary, we will reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. If we determine that the recorded tax liability is less than we expect the ultimate assessment to be, we will record an additional charge in our provision for taxes in the period in which we ascertain an additional liability is required. We also record deferred tax liabilities for the undistributed earnings of foreign subsidiaries in the period in which the foreign earnings are not considered permanently reinvested.

**Recent Accounting Pronouncements**

In September 2006, the Securities and Exchange Commission (“SEC”) released SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”). SAB 108 provides interpretive guidance on the SEC’s views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The Company adopted SAB 108 during the fourth quarter of 2006 resulting in a transition adjustment of approximately \$6.7 million to accumulated deficit.

We had over accrued liabilities over multiple years totaling \$7.6 million, over stated deferred revenue of \$0.5 million and over amortization of other assets totaling \$81 thousand through uncorrected immaterial errors which arose in periods prior to December 31, 2005.

In addition, in the fourth quarter of 2006, given recent attention to accounting for stock options, the Company reviewed option and stock grants made from 1997 to August 2006. The voluntary reviews were concluded in the fourth quarter of 2006. We identified an adjustment of approximately \$0.8 million to increase additional paid in capital for immaterial clerical errors related to accounting for stock options associated with stock option grants during the period from 1997 to 2004. In a separate review, we identified errors totaling approximately \$0.7 million for restricted stock awards granted to executives and employees in connection with past acquisitions. The total amount of unrecorded stock based compensation over multiple years totaled \$1.5 million which was recorded under SAB 108 as an increase in additional paid in capital.

Historically, we have evaluated uncorrected differences utilizing the rollover approach. We believe the impact of the stock based compensation, accrued liabilities, deferred revenue and other items were immaterial to prior fiscal years under the rollover method. However, under SAB 108, which we were required to adopt for the year ended December 31, 2006, we must assess materiality using both the rollover method and the iron-curtain method. Under the iron-curtain method, the aforementioned errors are material to our fiscal 2006 financial statements and, therefore, we have recorded an adjustment to our opening fiscal 2006 retained earnings balance in the amount of \$6.7 million in accordance with the implementation guidance in SAB 108. The total cumulative impact is as follows:

|                                 |                 |
|---------------------------------|-----------------|
| Stock-based compensation        | \$ (1,460)      |
| Accrued expenses                | 7,595           |
| Deferred revenue                | 500             |
| Other                           | 84              |
| Decrease in accumulated deficit | <u>\$ 6,719</u> |

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table provides a history of the accumulated errors by year back to 2000:

|                                | 2000 and<br>Prior Years | 2001       | 2002         | 2003       | 2004         | 2005      | Total           |
|--------------------------------|-------------------------|------------|--------------|------------|--------------|-----------|-----------------|
| Stock-based compensation       | \$ (317)                | \$ (220)   | \$ (140)     | \$ (39)    | \$ (662)     | \$ (82)   | \$ (1,460)      |
| Accrued expenses               | 7,410                   | 447        | (198)        | (146)      | 62           | 20        | 7,595           |
| Deferred revenue               | —                       | —          | —            | 500        | —            | —         | 500             |
| Other                          | —                       | —          | —            | —          | (67)         | 151       | 84              |
| <b>Total</b>                   | <b>\$ 7,093</b>         | <b>227</b> | <b>(338)</b> | <b>315</b> | <b>(667)</b> | <b>89</b> | <b>\$ 6,719</b> |
| Tax effect                     | —                       | —          | —            | —          | —            | —         | —               |
| <b>Total, net of tax</b>       | <b>—</b>                | <b>227</b> | <b>(338)</b> | <b>315</b> | <b>(667)</b> | <b>89</b> | <b>—</b>        |
| Income (loss) before tax       | \$ 28,951               | \$ 23,084  | \$ (36,573)  | \$ 20,408  | \$ (25,448)  | \$ —      | \$ —            |
| Percent of income before taxes | —%                      | 1%         | (1)%         | (1)%       | (3)%         | —         | —               |

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures related to fair value measurements that are included in a company’s financial statements. SFAS No. 157 does not expand the use of fair value measurements in financial statements. It emphasizes that fair value is a market-based measurement and not an entity-specific measurement, and that it should be based on an exchange transaction in which a company sells an asset or transfers a liability. SFAS No. 157 also establishes a fair value hierarchy in which observable market data would be considered the highest level, while fair value measurements based on an entity’s own assumptions would be considered the lowest level. SFAS No. 157 is effective beginning January 1, 2008. FASB Staff Position (“FSP”) No. 157-2 allows for a one-year deferral of implementation for non-financial assets and liabilities, except items recognized or disclosed at fair value on an annual or more frequently recurring basis. The Company does not expect the adoption of SFAS No. 157 in the first quarter of 2008 to have a material impact on our consolidated financial statements. However, the Company continues to evaluate the effects that SFAS No. 157 will have on its consolidated financial statements with regards to non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis.

In July 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48), which became effective for the Company beginning in 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income taxes recognized in an entity’s financial statements in accordance with SFAS 109, “Accounting Income Taxes.” It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax benefits taken or expected to be taken on a tax return. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position at the largest amount that is more likely than not will be sustained on examination by the relevant tax authorities, based solely on the technical merits of the position. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained. If recognized, a tax benefits is then measured based upon the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution of the tax position. For additional information regarding the adoption of FIN 48, see Note 8, Income Taxes of our notes to Consolidated Financial Statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28*. SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and are required to be adopted by the Company in the first quarter of fiscal 2007. The Company has evaluated the application of SFAS No. 154, and has determined the adoption does not have a material impact on the Company’s results of operations or financial position.

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations”, a revision of SFAS No. 141. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific items, including acquisition costs, acquired contingent liabilities, restructuring costs, deferred tax asset valuation allowances and income tax uncertainties after the acquisition date. SFAS No. 141(R) is effective for all business combinations for which the acquisition date is on or after January 1, 2009 for companies operating under a calendar fiscal year. The Company is currently evaluating the effects that SFAS No. 141(R) will have on its consolidated financial statements with regards to future business combinations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51”. SFAS No. 160 requires noncontrolling interests to be recognized as equity in the consolidated financial statements, separate from the parent’s equity. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income. SFAS No. 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, when a subsidiary is deconsolidated, the parent must recognize a gain or loss in net income, measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Expanded disclosures are also required regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect SFAS No. 160 to have any impact on its consolidated financial statements.

**NOTE 3. INVESTMENTS**

We had no investments in available-for-sale securities as of December 31, 2006. The following table summarizes our investments in available-for-sale debt securities as of December 31, 2007 (in thousands):

|                                 | December 31, 2007        |                           |                          |                         |
|---------------------------------|--------------------------|---------------------------|--------------------------|-------------------------|
|                                 | Gross Amortized<br>Costs | Gross Unrealized<br>Gains | Gross Unrealized<br>Loss | Estimated Fair<br>Value |
| Corporate debt securities       | \$ 46,199                | \$ 22                     | \$ (212)                 | \$ 46,009               |
| U.S. government debt securities | 20,284                   | 57                        | (3)                      | 20,338                  |
| Asset-backed securities         | 35,534                   | 152                       | (2)                      | 35,684                  |
| Auction rate securities         | 4,000                    | —                         | —                        | 4,000                   |
|                                 | <u>\$ 106,017</u>        | <u>\$ 231</u>             | <u>\$ (217)</u>          | <u>\$ 106,031</u>       |

Realized gains and losses in available-for-sale securities were \$64,000 and nil for the years ended December 31, 2007 and 2006, respectively.

Fixed income securities included in short-term investments above are summarized by their contractual maturities as follows (in thousands):

| Due in             | December 31, 2007        |                         |
|--------------------|--------------------------|-------------------------|
|                    | Gross Amortized<br>Costs | Estimated Fair<br>Value |
| Less than one year | \$ 63,906                | \$ 64,061               |
| 1 thru 5 years     | 38,111                   | 37,970                  |
| After 5 years      | 4,000                    | 4,000                   |
| Total              | <u>\$ 106,017</u>        | <u>\$ 106,031</u>       |

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table summarizes the fair value and gross unrealized gains and (losses) related to available-for-sale securities, aggregated by investment category and length of time individual securities have been in a continuous gain (loss) position, as of December 31, 2007 (in thousands):

|                                 | December 31, 2007       |                         |                            |                         |                      |                         |
|---------------------------------|-------------------------|-------------------------|----------------------------|-------------------------|----------------------|-------------------------|
|                                 | Less than twelve months |                         | Greater than twelve months |                         | Total                |                         |
|                                 | Estimated Fair Value    | Gross Unrealized Losses | Estimated Fair Value       | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Corporate debt securities       | \$ 16,180               | \$ (8)                  | \$ 29,829                  | \$ (204)                | \$ 46,009            | \$ (212)                |
| U.S. government debt securities | 19,041                  | (3)                     | 1,297                      | —                       | 20,338               | (3)                     |
| Asset-backed securities         | 28,841                  | (2)                     | 6,843                      | —                       | 35,684               | (2)                     |
| Auction rate securities         | 4,000                   | —                       | —                          | —                       | 4,000                | —                       |
|                                 | <u>\$ 68,062</u>        | <u>\$ (13)</u>          | <u>\$ 37,969</u>           | <u>\$ (204)</u>         | <u>\$ 106,031</u>    | <u>\$ (217)</u>         |

**NOTE 4. GOODWILL AND INTANGIBLE ASSETS**

The change in the carrying amount of goodwill is as follows (in thousands):

|   | Goodwill          |                  |                   |
|---|-------------------|------------------|-------------------|
|   | Enterprise        | CodeGear         | Consolidated      |
| Balance as of January 1, 2007           | \$ 186,016        | 67,340           | \$ 253,356        |
| Impairment of goodwill                  | —                 | (26,509)         | (26,509)          |
| Purchase accounting adjustments — Segue | (539)             | —                | (539)             |
| Effect of exchange rates                | 380               | —                | 380               |
| Balance as of December 31, 2007         | <u>\$ 185,857</u> | <u>\$ 40,831</u> | <u>\$ 226,688</u> |

Goodwill and identifiable intangibles are accounted for in accordance with SFAS No. 141 “*Business Combinations*”, or SFAS 141 and SFAS No. 142 “*Goodwill and Other Intangible Asset.*”, or SFAS 142. Effective January 1, 2007, we changed from reporting one segment to reporting two segments (Enterprise and CodeGear). As of January 1, 2007, we began utilizing a combination of a discounted cash flow and market approach and goodwill was allocated to each of the reporting segments. Please refer to Note 15 “Reportable Segments” below for more information on the accounting related to the reportable segments. Under SFAS 142, goodwill and other long-lived assets must be tested for impairment annually or in interim periods, if conditions indicate possible impairment. Impairment testing of goodwill is performed in two steps. First, the carrying value of the reporting unit is compared to the fair value of the reporting unit including the goodwill. If the carrying amount of the reporting unit is greater than the fair value of the reporting unit, we perform the second step. The second step of the impairment test, used to measure the amount of impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, the impairment loss shall be recognized as an operating expense in an amount equal to that excess. We performed our annual testing of goodwill for impairment during the third quarter of 2007 and no impairment was indicated as of September 30, 2007. At December 31, 2007, we took into consideration various data points when determining the implied fair value including discounted cash flows and market comparable transactions. Our estimated fair value requires management to make estimates and assumptions that impact the reporting value of goodwill and may result in future write downs beyond the current reduction. As a result of this testing, impairment of \$26.5 million was recorded against our CodeGear reporting segment.

The initial purchase price allocation for the Segue acquisition resulted in \$65.5 million of goodwill. The adjustments to goodwill during the year ended December 31, 2007 are related to purchase consideration adjustments determined during post-closing reviews of the Segue acquisition for accounts receivable, deferred revenues

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

and customer deposits. Additionally, fluctuations in foreign currency exchange rates impact our foreign goodwill balances.

The following tables summarize our intangible assets, net (in thousands):

|                            | December 31, 2007        |                             |                        |
|----------------------------|--------------------------|-----------------------------|------------------------|
|                            | Gross Carrying<br>Amount | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Acquired technology        | \$ 46,330                | \$ (30,187)                 | \$ 16,143              |
| Maintenance agreements     | 11,300                   | (2,735)                     | 8,565                  |
| Trade names and trademarks | 1,100                    | (499)                       | 601                    |
| Customer relationship      | 9,075                    | (2,726)                     | 6,349                  |
| Other                      | 400                      | (400)                       | —                      |
|                            | <u>\$ 68,205</u>         | <u>\$ (36,547)</u>          | <u>\$ 31,658</u>       |

|                            | December 31, 2006        |                             |                        |
|----------------------------|--------------------------|-----------------------------|------------------------|
|                            | Gross Carrying<br>Amount | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Acquired technology        | \$ 46,330                | \$ (24,701)                 | \$ 21,629              |
| Maintenance agreements     | 11,300                   | (1,121)                     | 10,179                 |
| Trade names and trademarks | 1,100                    | (215)                       | 885                    |
| Customer relationship      | 9,075                    | (1,376)                     | 7,699                  |
| Other                      | 400                      | (271)                       | 129                    |
|                            | <u>\$ 68,205</u>         | <u>\$ (27,684)</u>          | <u>\$ 40,521</u>       |

The intangible assets are all amortizable and have original estimated useful lives as follows: acquired developed technology — 3 to 6 years; maintenance agreements — 7 years; trade names and trademarks — 4 years; customer relationships — 7 years; other — 1 to 3 years. Based on the current amount of intangibles subject to amortization, the estimated future amortization expense related to our intangible assets at December 31, 2007 is as follows (in thousands):

|            | Future<br>Amortization |
|------------|------------------------|
| 2008       | \$ 8,468               |
| 2009       | 7,315                  |
| 2010       | 6,465                  |
| 2011       | 5,272                  |
| 2012       | 3,317                  |
| Thereafter | 821                    |
| Total      | <u>\$ 31,658</u>       |

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 5. CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS COMPONENTS**

Details of certain balance sheet captions are as follows (amounts in thousands):

|  | <u>December 31,</u><br><u>2007</u> | <u>December 31,</u><br><u>2006</u> |
|--|------------------------------------|------------------------------------|
| <b>Accounts receivable, net:</b>               |                                    |                                    |
| Gross accounts receivable                      | \$ 60,736                          | \$ 67,567                          |
| Allowance for rebates and returns              | (1,778)                            | (2,199)                            |
| Allowance for doubtful accounts                | (4,318)                            | (3,214)                            |
| Total  | <u>\$ 54,640</u>                   | <u>\$ 62,154</u>                   |
| <b>Property and equipment, net:</b>            |                                    |                                    |
| Computer equipment                             | \$ 27,372                          | \$ 34,067                          |
| Furniture, fixtures and equipment              | 8,014                              | 7,137                              |
| Other  | 9,089                              | 12,573                             |
|  | <u>44,475</u>                      | <u>53,777</u>                      |
| Less accumulated depreciation and amortization | (34,479)                           | (42,601)                           |
| Total  | <u>\$ 9,996</u>                    | <u>\$ 11,176</u>                   |
| <b>Accrued expenses:</b>                       |                                    |                                    |
| Accrued payroll and incentives                 | \$ 18,494                          | \$ 24,461                          |
| Professional service fees and settlement costs | 3,883                              | 2,440                              |
| Other  | 9,228                              | 9,537                              |
| Total  | <u>\$ 31,605</u>                   | <u>\$ 36,438</u>                   |

Details of restructuring, amortization of other intangibles, acquisition-related expenses and other charges are as follows (amounts in thousands):

|                                     | <u>Year Ended December 31,</u> |                  |                  |
|-------------------------------------|--------------------------------|------------------|------------------|
|                                     | <u>2007</u>                    | <u>2006</u>      | <u>2005</u>      |
| Restructuring                       | \$ 11,254                      | \$ 12,880        | \$ 16,110        |
| Amortization of other intangibles   | 413                            | 557              | 2,850            |
| Acquisition-related expenses        | 2,267                          | 3,836            | 1,642            |
| <b>Other charges:</b>               |                                |                  |                  |
| In-process research and development | —                              | 4,800            | 300              |
| Other charges:                      | —                              | —                | (291)            |
|                                     | <u>\$ 13,934</u>               | <u>\$ 22,073</u> | <u>\$ 20,611</u> |

*Restructuring:* During 2007 we recorded \$11.3 million in net restructuring expenses, relating to two separate restructuring plans taken during the year, the first action occurred in the second quarter of 2007 and the second action occurred in the fourth quarter of 2007.

**FY 2007 4th Quarter**

In December 2007, we announced a worldwide reduction in force. The worldwide reduction in force involved approximately 90 employees, or approximately eight percent of our headcount prior to the reduction, and the

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

closing of facilities in approximately six locations. The workforce reduction and facility actions were primarily in the United States and Europe, and to a lesser degree in other international locations. We incurred \$5.2 million in costs relating to our underutilized facility in Cupertino, California and \$3.7 million in costs relating to termination benefits for employees eliminated during this action.

These costs were partially offset by the reversal of \$0.6 million in previously accrued severance and benefit costs from prior restructuring plans. Refer to Note 7 below for additional information.

*Amortization of other intangibles and Acquisition-related expenses:* During 2007 we recorded \$0.4 million in operating expenses from the amortization of other purchased intangibles primarily from the TogetherSoft acquisition and \$2.3 million in acquisition-related expenses, which were principally associated with the acquisition of Legadero.

**FY 2007 2nd Quarter**

In April of 2007, we announced the relocation of our corporate headquarters from Cupertino, California to Austin, Texas. The relocation involved restructuring actions with respect to personnel and the consolidation of facilities. Approximately 70 employees, or approximately six percent of our full-time staff, prior to the relocation, were effected. We incurred \$3 million in costs relating to termination benefits for employee positions eliminated as a result of the relocation.

**FY 2006**

During 2006, we recorded \$12.9 million in net restructuring expenses, which included \$3.1 million of facility related expenses due primarily to the consolidation of underutilized facilities in Lexington, Massachusetts, Sweden, France, Taiwan, Singapore, Japan and Australia. We also incurred \$9.4 million in severance costs and \$0.4 million in legal expenses for the elimination of 315 positions, of which 158 were in selling, general and administrative and 157 were in research and development. Refer to Note 7 below for additional information. We recorded \$0.6 million in operating expenses from the amortization of other purchased intangibles primarily from the TogetherSoft and Starbase acquisitions, \$3.8 million in acquisition-related expenses, which were principally associated with the acquisitions of Segue, TeraQuest and Legadero, and a charge to expense of \$4.8 million for acquired in-process research and development related to the Segue acquisition.

**FY 2005**

During 2005, we recorded \$16.1 million in net restructuring expenses, which included \$13.1 million of facility related expenses due primarily to the consolidation of underutilized facilities in Scotts Valley, California. We also incurred \$4.0 million in severance costs for the elimination of 81 positions, of which 53 were in selling, general and administrative and 28 were in research and development. Partially offsetting these expenses were restructuring reversals of \$0.5 million related to a vacant facility in Raleigh, North Carolina, that we were able to sublease and \$0.3 million for a previously exited facility located in Twyford, United Kingdom, that we re-occupied. We recorded \$2.9 million in operating expenses from the amortization of other purchased intangibles primarily from the TogetherSoft and Starbase acquisitions, \$1.6 million of acquisition-related expenses related to the acquisitions of TeraQuest and Legadero, and a charge to expense of \$0.3 million for acquired in-process research and development related to the Legadero acquisition. Additionally, we reversed \$0.3 million of litigation charges in connection with our Starbase acquisition.

**NOTE 6. ACQUISITIONS**

***Segue Software, Inc.***

In April 2006, we completed the acquisition of Segue Software, Inc., or Segue, pursuant to an Agreement and Plan of Merger, dated as of February 7, 2006, or the Merger Agreement. Segue is now a wholly-owned subsidiary of

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Borland. Segue was a Massachusetts-based provider of quality and testing solutions which defined, measured, managed and improved software quality throughout the entire application lifecycle. Under the terms of the Merger Agreement, we paid \$8.67 per share in cash for all outstanding shares of Segue. The purchase price was approximately \$115.9 million and consisted of fixed consideration of \$105.4 million in cash used to purchase all of Segue's outstanding common shares, \$8.1 million in cash paid to eligible Segue employees who held vested common stock options on the closing date of the acquisition and \$2.5 million of direct acquisition-related costs. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition, including identifiable intangible assets, with the remaining amount being classified as goodwill. Additionally, we expect to pay contingent consideration through 2009 of up to a maximum of \$1.3 million, of which a total of \$0.6 million has been paid to eligible former Segue employees who held unvested common stock options on the closing date of the acquisition and were retained as Borland employees. The contingent consideration is based upon continued employment with Borland and paid in accordance with the vesting schedules of the original Segue common stock options. This contingent consideration is recognized as compensation expense in the periods when it is earned and paid. Cash acquired in the acquisition was \$13.5 million. The results of operations for Segue have been included in our consolidated financial statements from the date of acquisition. The acquisition was accounted for as a purchase and the total purchase price was recorded as follows (in thousands):

|   |                   |
|---|-------------------|
| Cash paid for outstanding common shares               | \$ 105,358        |
| Cash paid for outstanding vested common stock options | 8,130             |
| Direct transaction costs                              | <u>2,451</u>      |
| Total purchase price                                  | <u>\$ 115,939</u> |

Based upon the purchase price of the acquisition, the purchase price allocation is as follows (in thousands):

|   |                   |
|---|-------------------|
| Current assets and other tangible assets:       |                   |
| Cash  | \$ 13,482         |
| Accounts receivable                             | 4,199             |
| Other current assets                            | 1,210             |
| Property and equipment                          | 902               |
| Deferred tax assets, net of valuation allowance | 17,835            |
| Goodwill  | 65,528            |
| Amortizable intangible assets:                  |                   |
| Developed technology                            | 23,400            |
| In-process research and development             | 4,800             |
| Customer relationships                          | 7,500             |
| Trademarks                                      | 1,000             |
| Non-compete agreements                          | 300               |
| Maintenance agreements                          | <u>11,300</u>     |
| Total assets acquired                           | 151,456           |
| Liabilities assumed:                            |                   |
| Deferred revenues                               | (9,042)           |
| Current liabilities                             | (7,276)           |
| Deferred tax liabilities                        | (17,835)          |
| Other long-term liabilities                     | <u>(1,364)</u>    |
| Net assets acquired                             | <u>\$ 115,939</u> |

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The developed technology is being amortized over three to six years, the customer relationships and maintenance agreements over seven years, the trademarks over four years and the non-compete agreements over a one year life from the date of acquisition. The amortizable intangible assets were calculated using the income approach by estimating the expected cash flows from the projects once commercially viable and discounting the net cash flows back to their present value. The discount rates used in the valuation were 11% to 21%.

Of the purchase price, \$4.8 million represented acquired in-process research and development, or IPR&D, that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately charged to operating expense upon completion of the acquisition. Independent third-party sources assisted us in calculating the value of the intangible assets, including the IPR&D. The value of the IPR&D was calculated using the income approach by estimating the expected cash flows from the projects once commercially viable and discounting the net cash flows back to their present value. The discount rates used in the valuation of IPR&D were 18% to 20% and factored in the costs expected to complete each project.

In accordance with SFAS 109, "Accounting for Income Taxes," deferred tax liabilities of \$11.9 million have been recorded for the tax effect of the amortizable intangible assets. We have recorded an offsetting deferred tax asset of \$11.9 million to reflect future deductible differences that could be allocable to offset future taxable income. We are releasing a portion of the valuation allowance to the extent the realization of deferred tax assets becomes assured as a result of the additional taxable income generated by the non-deductible amortizable intangible assets and other taxable temporary differences. Any future release of valuation allowance against deferred tax assets of Segue will be recorded against goodwill. None of the goodwill recorded as a result of the acquisition of Segue is deductible for tax purposes.

Additionally, subsequent to the completion of the acquisition, options to purchase approximately 843,000 shares of common stock pursuant to our 2003 Supplemental Stock Option Plan were issued to Segue employees who became our employees. These options will vest over a four year period.

***Legadero***

On October 3, 2005, we completed the acquisition of privately held Legadero Software, Inc., or Legadero. Legadero was a Texas-based provider of IT management and governance solutions for software development and delivery and was acquired to complement our existing Application Lifecycle Management, or ALM, products and services. The purchase price consisted of fixed consideration of \$7.5 million in cash plus contingent consideration of \$5.4 million for retention payments to be earned through the continued employment of certain key employees. This contingent consideration was placed in escrow and was vested and paid over a two-year period and recognized as compensation expense. At December 31, 2007, the contingent consideration was fully paid and recognized as compensation expense. In addition, we incurred \$0.1 million of acquisition-related costs. Cash acquired in the acquisition was \$0.3 million. Results of operations for Legadero have been included in our consolidated financial statements from the date of acquisition. The acquisition was accounted for as a purchase and the total purchase price was recorded as follows (in thousands):

|                          |                 |
|--------------------------|-----------------|
| Cash tendered            | \$ 7,509        |
| Direct transaction costs | <u>131</u>      |
| Total purchase price     | <u>\$ 7,640</u> |

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Based upon the purchase price of the acquisition, the purchase price allocation was as follows (in thousands):

|   |                 |
|---|-----------------|
| Current assets and other tangible assets:       |                 |
| Cash  | \$ 287          |
| Current assets                                  | 31              |
| Deferred tax assets, net of valuation allowance | 1,107           |
| Goodwill  | 4,425           |
| Amortizable intangible assets:                  |                 |
| Developed technology                            | 2,400           |
| Customer list                                   | 100             |
| Trademarks, trade names and service marks       | 100             |
| Non-compete covenants                           | 100             |
| In-process research and development             | <u>300</u>      |
| Total assets acquired                           | 8,850           |
| Liabilities assumed:                            |                 |
| Current liabilities                             | (103)           |
| Deferred tax liabilities                        | <u>(1,107)</u>  |
| Net assets acquired                             | <u>\$ 7,640</u> |

The developed technology, customer list and trademarks, trade names and service marks are being amortized over a three-year life from the date of acquisition and non-compete covenants are being amortized over a two-year life from the date of acquisition. Of the purchase price, \$0.3 million represented acquired IPR&D that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately charged to operating expense upon consummation of the acquisition. Independent third-party sources assisted us in calculating the value of IPR&D using the income approach by estimating the expected cash flows from the projects once commercially viable, discounting the net cash flows back to their present value and then applying a percentage of completion.

In accordance with SFAS 109, "Accounting for Income Taxes," deferred tax liabilities of \$0.3 million have been recorded for the tax effect of the amortizable intangible assets as well as other taxable temporary differences. We have recorded an offsetting deferred tax asset of \$0.3 million to reflect future deductible differences that could be allocable to offset future taxable income. We are releasing a portion of the valuation allowance to the extent the realization of deferred tax assets becomes assured as a result of the additional taxable income generated by the non-deductible amortizable intangible assets and other taxable temporary differences. Any future release of valuation allowance against deferred tax assets of Legadero will be recorded against goodwill.

Additionally, subsequent to the completion of the acquisition, options to purchase approximately 378,000 shares of common stock with a vesting period of four years were issued to Legadero employees who became our employees pursuant to our 2003 Supplemental Stock Option Plan.

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 7. RESTRUCTURING AND MERGER-RELATED CHARGES**

We accounted for our restructuring activities in accordance with SFAS No. 146 “*Accounting for Costs Associated with Exit or Disposal Activities*,” SFAS No. 112, “*Employers’ Accounting for Postemployment Benefits — an amendment of FASB Statement No. 5 and 43*,” and SEC Staff Accounting Bulletin No. 100, “*Restructuring and Impairment Charges*,” as applicable. The following table summarizes our restructuring activity for the years ended December 31, 2007, 2006 and 2005 (amounts in thousands):

|  | <u>Severance<br/>and Benefits</u> | <u>Facilities</u> | <u>Other</u> | <u>Total</u>     |
|--|-----------------------------------|-------------------|--------------|------------------|
| Accrual at December 31, 2004               | \$ 98                             | \$ 3,127          | \$ 308       | \$ 3,533         |
| 2005 restructuring                         | 3,976                             | 13,121            | 38           | 17,135           |
| Cash paid and write-offs during 2005       | (3,802)                           | (2,680)           | (42)         | (6,524)          |
| Reversal of previous restructuring         | <u>(80)</u>                       | <u>(884)</u>      | <u>—</u>     | <u>(964)</u>     |
| Accrual at December 31, 2005               | 192                               | 12,684            | 304          | 13,180           |
| Acquired from Segue                        | 3,507                             | 542               | —            | 4,049            |
| 2006 restructuring                         | 9,577                             | 3,177             | 446          | 13,200           |
| Cash paid and write-offs during 2006       | (8,904)                           | (4,800)           | (592)        | (14,296)         |
| Reversal of previous restructuring         | <u>(194)</u>                      | <u>(52)</u>       | <u>(74)</u>  | <u>(320)</u>     |
| Accrual at December 31, 2006               | 4,178                             | 11,551            | 84           | 15,813           |
| 2007 restructuring                         | 6,434                             | 5,152             | 321          | 11,907           |
| Cash paid and write-offs during 2007       | (5,776)                           | (5,119)           | (482)        | (11,377)         |
| Reclassification of previous restructuring | (98)                              | —                 | 98           | —                |
| Reversal of previous restructuring         | <u>(515)</u>                      | <u>(138)</u>      | <u>—</u>     | <u>(653)</u>     |
| Accrual at December 31, 2007               | <u>\$ 4,223</u>                   | <u>\$ 11,446</u>  | <u>\$ 21</u> | <u>\$ 15,690</u> |

Of the \$15.7 million in our restructuring accrual at December 31, 2007, \$9.9 million was in our short-term accrual and \$5.8 million was in our long-term accrual and are related to our Enterprise segment. The long-term accrual is related to facility operating leases. Our facility accruals represent our remaining lease payments less anticipated sublease income plus lease incentives for prospective tenants and other certain costs.

During 2007, we recorded \$11.3 million in net restructuring expenses relating to two separate restructuring plans taken during the year, the first action occurred in the second quarter of 2007 and the second action occurred in the fourth quarter of 2007.

**FY 2007 4th Quarter**

In December 2007, we announced a worldwide reduction in force. The worldwide reduction in force involved approximately 90 employees, or approximately eight percent of our headcount prior to the reduction, and the closing of facilities in approximately six locations. The workforce reduction and facility actions were primarily in the United States and Europe, and to a lesser degree in other international locations. We incurred \$5.2 million in costs relating to our underutilized facility in Cupertino, California and \$3.7 million in costs relating to termination benefits for employees eliminated during this action.

These costs were partially offset by the reversal of \$0.6 million in previously accrued severance and benefit costs from prior restructuring plans.

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**FY 2007 2nd Quarter**

In April of 2007, we announced the relocation of our corporate headquarters from Cupertino, California to Austin, Texas. The relocation involved restructuring actions with respect to personnel and the consolidation of facilities. Approximately 70 employees, or approximately six percent of our full-time staff, prior to the relocation, were effected. We incurred \$3 million in costs relating to termination benefits for employee positions eliminated as a result of the relocation.

**FY 2006**

During 2006, we recorded \$12.9 million in net restructuring expenses, which included \$3.1 million of facility related expenses due primarily to the consolidation of underutilized facilities in Lexington, Massachusetts, Sweden, France, Taiwan, Singapore, Japan and Australia. We also incurred \$9.4 million in severance costs and \$0.4 million in legal expenses for the elimination of 315 positions, of which 158 were in selling, general and administrative and 157 were in research and development.

**FY 2005**

During 2005, we recorded \$16.1 million in net restructuring expenses, which included \$13.1 million of facilities related expenses and \$4.0 million in severance costs, partially offset by restructuring reversals of \$0.5 million related to a vacant facility in Raleigh, North Carolina, we were able to sublease and \$0.3 million for a previously exited facility located in Twyford, United Kingdom, we re-occupied. Our 2005 restructurings included facility costs related to exiting a portion of an underutilized building located in Scotts Valley, California and non-recurring severance and benefit expenses related to headcount reductions of 81 employees, of which 53 were in selling, general and administrative and 28 were in research and development.

The restructuring charges relating to operating leases have been recorded, net of assumed sublease income and present value factors based on interest rates ranging from 4% to 8%. Substantially all of these restructuring costs have or will require the outlay of cash, although the timing of lease payments relating to leased facilities over the next five years will be unchanged by the restructuring action.

**NOTE 8. INCOME TAXES**

Income before income taxes consisted of the following (in thousands):

|          | <u>Year Ended December 31,</u> |                    |                    |
|----------|--------------------------------|--------------------|--------------------|
|          | <u>2007</u>                    | <u>2006</u>        | <u>2005</u>        |
| U.S.     | \$ (82,596)                    | \$ (52,033)        | \$ (33,783)        |
| Non-U.S. | 24,059                         | 2,602              | 8,335              |
|          | <u>\$ (58,537)</u>             | <u>\$ (49,431)</u> | <u>\$ (25,448)</u> |

**BORLAND SOFTWARE CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The provision for income taxes consisted of the following (in thousands):

|           | Year Ended December 31, |                 |                 |
|-----------|-------------------------|-----------------|-----------------|
|           | 2007                    | 2006            | 2005            |
| Current:  |                         |                 |                 |
| Federal   | \$ 70                   | \$ (70)         | \$ (62)         |
| State     | 8                       | 118             | 19              |
| Non-U.S.  | 2,868                   | 930             | 4,450           |
|           | <u>\$ 2,946</u>         | <u>\$ 978</u>   | <u>\$ 4,407</u> |
| Deferred: |                         |                 |                 |
| Federal   | \$ 190                  | \$ —            | \$ —            |
| State     | —                       | —               | —               |
| Non-U.S.  | —                       | 1,544           | (23)            |
|           | <u>190</u>              | <u>1,544</u>    | <u>(23)</u>     |
|           | <u>\$ 3,136</u>         | <u>\$ 2,522</u> | <u>\$ 4,384</u> |

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the federal statutory rate on income before income taxes (in thousands):

|  | Year Ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2007                    | 2006            | 2005            |
| Tax provision computed at U.S. statutory rate  | \$ (20,488)             | \$ (17,301)     | \$ (8,907)      |
| State taxes  | (2,571)                 | (2,966)         | (1,527)         |
| Limitation or (benefit) on utilization of U.S. losses, credits and future deductions     | 25,673                  | 13,350          | 4,329           |
| Non-U.S. withholding taxes   | 78                      | 1,139           | 1,271           |
| Tax effect of acquisition-related non-deductible goodwill and intangibles                | 4,063                   | 4,821           | 5,384           |
| Tax effect of foreign income inclusions  | 2,991                   | 3,209           | 4,285           |
| Subsidiaries' results subject to tax at rates other than U.S. statutory rates            | (4,792)                 | (1,569)         | (237)           |
| Limitation or (benefit) on utilization of non-U.S. losses, credits and future deductions | (2,434)                 | 972             | 537             |
| Change in valuation allowance  | 616                     | 867             | (751)           |
| Income tax provision   | <u>\$ 3,136</u>         | <u>\$ 2,522</u> | <u>\$ 4,384</u> |

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are comprised of the following (in thousands):

|  | <u>Year Ended December 31,</u> |                  |
|--|--------------------------------|------------------|
|  | <u>2007</u>                    | <u>2006</u>      |
| Accrued expenses                                     | \$ 9,709                       | \$ 12,917        |
| Accounts receivables reserves                        | 1,271                          | 1,312            |
| Deprecation, amortization and other                  | 4,710                          | 5,473            |
| U.S. federal and state loss and credit carryforwards | 97,308                         | 112,931          |
| Non-U.S. loss carryforwards                          | <u>2,195</u>                   | <u>3,359</u>     |
| Gross deferred tax assets                            | 115,193                        | 135,992          |
| Deferred tax assets valuation allowance              | <u>(90,519)</u>                | <u>(110,446)</u> |
| Deferred tax assets, net of valuation allowance      | \$ 24,674                      | \$ 25,546        |
| Deferred tax liability                               | \$ (11,582)                    | \$ (9,618)       |
| Acquired intangibles                                 | \$ (12,470)                    | \$ (16,533)      |
| Deferred tax liability, net                          | \$ (24,052)                    | \$ (26,151)      |
| Total deferred tax assets (liabilities), net         | <u>\$ 622</u>                  | <u>\$ (605)</u>  |

We have recorded a valuation allowance against substantially all of our deferred tax assets at December 31, 2007. In accordance with SFAS 109 and based on all available evidence, including our historical results and the uncertainty of predicting our future income, the valuation allowance reduces our deferred tax assets to an amount that is more likely than not to be realized. The amount of valuation allowance can be attributable to U.S. federal, state and certain foreign deferred tax assets primarily consisting of reserves, tax credit carryforwards, net operating loss carryforwards, accrued expenses and other temporary differences.

For U.S. federal and state income tax purposes, we have net operating loss, or NOL, carryforwards of approximately \$393 million and \$40.9 million at December 31, 2007, respectively. These loss carryforwards will expire between 2008 and 2027, if not utilized. We also have approximately \$14.4 million of NOL carryforwards in various foreign jurisdictions. In 2006, we acquired Segue and assumed their NOL carryforwards of \$56.5 million. In 2003, we acquired TogetherSoft and Starbase, and assumed their NOL carryforwards of \$2.4 million and \$31.5 million, respectively. In the event that we can utilize these NOL carryforwards against our U.S. federal taxable income, we will release a portion of the valuation allowance against goodwill.

Excess tax benefits from employee stock option exercises of \$159.8 million are included in the deferred tax asset balances at December 31, 2006 as a component of the Company's net operating loss carryforwards. Deferred income taxes pertaining to net operating losses decreased by \$62.5 million due to a change in presentation in accordance with FAS 123R "Share-Based Payments". These deferred income tax assets resulted from the exercise of employee stock options in prior years and represent excess tax benefits as determined under APB 25 "Accounting for Stock Issued to Employees". The deferred income tax assets for excess taxes benefits had a full valuation allowance against them in prior years. FAS 123R prohibits recognition of a deferred income tax asset for an excess tax benefit that has not been realized through a reduction in income taxes payable. The Company has elected to net its deferred income tax assets for net operating losses and the related valuation allowance for the excess tax determined under APB 25. The gross amount of excess tax benefits excluded at December 31, 2007 is \$160.1 million. If and when such excess tax benefits are ultimately realized, additional paid in capital will be increased by \$160.1 million.

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We have available U.S. federal and state tax credit carryforwards of approximately \$30.2 million and \$15.1 million, respectively. These credit carryforwards will expire beginning in 2008, if not utilized. We also have Alternative Minimum Tax, or AMT, credit carryforwards for U.S. federal income tax purposes of approximately \$1.0 million, which do not expire.

Undistributed earnings of Borland's foreign subsidiaries amounted to approximately \$48.9 million as of December 31, 2007. Approximately \$29.9 million are considered to be non-permanently reinvested and applicable residual U.S. income and foreign withholding taxes of \$0.8 million have been provided on those earnings. With respect to the balance of \$19 million of foreign undistributed earnings, applicable US income and non-US have been provided as such earnings are considered to be permanently invested in foreign operations.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recorded a \$1.9 million increase in the liability for unrecognized tax benefits, a decrease in cumulative translation adjustments of \$0.7 million for the foreign currency impact of foreign unrecognized tax benefits, a \$1.3 million increase to deferred tax assets and a \$0.1 million increase to the beginning balance of retained earnings in our balance sheet. Upon adoption, we had \$58.3 million of unrecognized tax benefits of which \$15 million, when recognized, will impact the effective tax rate. In accordance with FIN 48, we reclassified \$15 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. These non-current income tax liabilities are recorded in other long-term liabilities in our balance sheet.

A reconciliation of the January 1, 2007 through December 31, 2007 amount of unrecognized tax benefits (excluding interest and penalties) is as follows:

|  |          |
|--|----------|
| Beginning balance at January 1, 2007 (in millions)                         | \$ 58.3  |
| Increases (decreases) of UTBs taken in prior years                         | \$ (9.1) |
| Increases (decreases) of UTBs taken in current year                        | \$ 1.4   |
| Increases (decreases) of UTBs related to settlements                       | \$ 0.0   |
| Increases (decreases) of UTBs related to lapsing of statute of limitations | \$ (1.1) |
| Ending balance at December 31, 2007  | \$ 49.5  |

Of the total \$49.5 million unrecognized tax benefits, \$12.8 million represents the amount that if recognized, would favorably affect the effective income tax rate in any future periods.

Included in the balance of unrecognized tax benefits at December 31, 2007, is between \$1.3 to \$1.5 million related to tax positions and interest for which it is reasonably possible that audits will be closed or the statute of limitations will expire in various foreign jurisdictions within the next twelve months.

We record interest and penalties related to unrecognized tax benefits in income tax expense. At December 31, 2007, we had cumulatively accrued approximately \$3.3 million for estimated interest and \$340,000 for estimated penalties related to uncertain tax positions. For the 12 months ended December 31, 2007, the Company recorded estimated interest of approximately \$1.1 million.

We and our subsidiaries are subject to taxation in various foreign and state jurisdictions as well as the U.S. Our U.S. federal and state income tax returns are generally not subject to examination by the tax authorities for tax years before 2002. With a few exceptions, the tax years 2001-2007 remain open to examination by tax authorities in the major foreign jurisdictions in which we operate. We have concluded an examination in Germany for tax years 2002-2005. The final outcome resulted in no material changes to our results of operations, financial condition or liquidity. In addition, we concluded an examination in Australia for transfer pricing. As a result of competent authority proceedings with the Australian and U.S. taxing authorities, the settlement resulted in a reduction of net operating loss carryforwards in Australia and an increase in net operating loss carryforwards in the U.S. which are offset by a full valuation allowance, respectively. The net effect of the settlement did not have a material impact to the financial statements.

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 9. SENIOR NOTES OFFERING**

*General*

In February 2007, we issued 2.75% Convertible Senior Notes due February 15, 2012, for an aggregate principal amount of \$200 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A under the Securities Act of 1933. The Convertible Senior Notes bear interest at 2.75% per annum. Interest is payable semiannually in arrears on February 15 and August 15, of each year, beginning August 15, 2007. We received proceeds of approximately \$193.9 million after we deducted fees of the initial purchaser and our offering expenses for the aggregate amount of approximately \$6.1 million. Our fees relating to the offering are being amortized in other operating expense over the term of the Convertible Senior Notes and interest expense related to the offering is being accrued in other income and expense over the term of the Convertible Senior Notes. We used approximately \$30 million of the net proceeds from the sale of the Convertible Senior Notes to repurchase approximately 5.9 million shares of our common stock.

*Conversion Process and Other Terms of the Convertible Senior Notes*

On or after November 11, 2011, holders of the Convertible Senior Notes will have the right to convert their notes. Upon conversion, we will deliver a number of shares of our common stock equal to the conversion rate for each \$1,000 of principal amount of notes converted, unless prior to the date of such conversion we have obtained stockholder approval to settle conversions of the notes in cash and shares of our common stock. If we obtain such approval, any notes converted after such approval will be convertible into (i) cash equal to the lesser of the aggregate principal amount of the notes to be converted and the total conversion value and (ii) shares of our common stock for the remainder, if any, of the total conversion value. In addition, following specified corporate transactions, we will increase the conversion rate for holders who elect to convert notes in connection with such corporate transactions, provided that in no event may the shares issued upon conversion, as a result of adjustment or otherwise, result in the issuance of more than approximately 39.2 million shares.

Holders may convert their Convertible Senior Notes prior to maturity if: (1) the price of our common stock reaches \$8.29 during periods of time specified in the Convertible Senior Notes, (2) specified corporate transactions occur or (3) the trading price of the notes falls below a certain threshold.

We evaluated the embedded conversion option in accordance with SFAS No. 133, “*Accounting for Derivative Instruments and Hedging Activities*” and concluded that the embedded conversion option contained within the Convertible Senior Notes should not be accounted for separately because the conversion option is indexed to our common stock and is classified as stockholders’ equity. Additionally, we evaluated the terms of the Convertible Senior Notes for a beneficial conversion feature in accordance with EITF No. 98-5, “*Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*” and EITF No. 00-27, “*Application of Issue 98-5 to Certain Convertible Instruments*” and concluded that there was no beneficial conversion feature at the commitment date based on the conversion rate of the Convertible Senior Notes relative to the commitment date stock price.

Each \$1,000 of principal of the Convertible Senior Notes will initially be convertible into 156.8627 shares of Borland common stock, which is the equivalent of \$6.38 per share and would result in the issuance of an aggregate of approximately 31.4 million shares. The number of shares issuable upon conversion is subject to adjustment under the following circumstances: (1) during any fiscal quarter beginning after March 31, 2007, if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediate preceding fiscal quarter is greater or equal to 130% of the applicable conversion price on the last day of such preceding fiscal quarter; (2) during the five business day period after any ten consecutive trading day period in which the trading price per note for each day of that ten consecutive trading day period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for such day; and (3) upon the occurrence of specified corporate transactions.

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Based on SFAS No. 128, “*Earnings per Share*” and EITF No. 04-08, “*Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share*,” the dilutive effect of the common shares issuable upon conversion of the Convertible Senior Notes would normally be reflected in the diluted earnings per share calculation. However, due to the net share settlement feature, the Convertible Senior Notes do not qualify as an Instrument C under EITF No. 90-19, “*Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock*.” Therefore, we use the “if-converted” method for calculating diluted earnings per share. Using the “if-converted” method, the shares issuable upon conversion of the Convertible Senior Notes was anti-dilutive for the twelve months ended December 31, 2007. Accordingly, the impact has been excluded from the computation of diluted earnings per share.

***Registration Rights***

Under the terms of the Convertible Senior Notes, we filed a shelf registration statement regarding the Convertible Senior Notes with the SEC on December 3, 2007. The shelf registration statement was declared effective by the SEC on February 8, 2008. We must keep the shelf registration statement effective until February 6, 2009 or such earlier date as all shares issued upon conversion of the Convertible Senior Notes are sold. If we fail to meet these terms, we will be required to pay additional interest on the Convertible Senior Notes in the amount of 0.25% for the first 90 days after the occurrence of the failure to meet a term and 0.50% thereafter.

**NOTE 10. COMMON SHARES RESERVED FOR FUTURE ISSUANCE**

Shares of common stock reserved for future issuance at December 31, 2007 are as follows:

|                              |                   |
|------------------------------|-------------------|
| Convertible Senior Notes     | 39,200,000        |
| Stock Option Plans           | 18,305,582        |
| Employee Stock Purchase Plan | <u>2,573,582</u>  |
| Total                        | <u>60,079,164</u> |

**NOTE 11. STOCK REPURCHASE PROGRAMS*****Discretionary Repurchase Program***

In September 2001, our Board of Directors authorized the use of up to \$30 million to repurchase shares of our outstanding common stock under a discretionary stock repurchase program, or the Discretionary Program. In February 2004 and May 2005, our Board of Directors authorized an additional \$30 million and \$75 million, respectively, under this program bringing the total discretionary stock repurchase authorizations to \$135 million.

No shares were repurchased through our Discretionary Program during 2007. The Discretionary Program is currently in effect and at December 31, 2007, \$59.3 million remains authorized for future repurchases.

No shares were repurchased through the Discretionary Program during the year ended December 31, 2006. During the year ended December 31, 2005, we repurchased 4,971,800 shares of common stock at an average price of \$6.62 per share for an aggregate cost of \$32.9 million.

***10b5-1 Repurchase Program***

In August 2003, our Board of Directors authorized a 10b5-1 stock repurchase program whereby up to 1,000,000 shares or \$15 million worth of our outstanding common stock, whichever comes first, may be repurchased with a per day trading limit of 2,000 shares.

During the year ended December 31, 2005, we repurchased 298,000 shares at an average price of \$7.42 per share for total consideration of \$2.2 million. The 10b5-1 Program expired during the third quarter of 2005 when the

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

accumulated total number of shares repurchased under the program reached its authorized maximum of 1,000,000 shares.

**NOTE 12. STOCK BENEFIT PLAN AND STOCK-BASED COMPENSATION**

*General*

Our employee stock incentive plans are long-term retention plans that are intended to attract, retain and provide incentives for talented employees, including officers and non-employee directors, and to align stockholder and employee interests. We believe our employee stock incentive plans are critical to our operations and productivity. Our employee stock incentive plans allow us to grant, on a discretionary basis, both incentive stock options and non-qualified stock options, as well as restricted stock and stock bonuses.

*Stock Incentive Plans*

As of December 31, 2007, we have various stock-based compensation plans. Our employee stock option plans allow us to grant, on a discretionary basis, both incentive stock options and non-qualified stock options, as well as restricted stock and stock bonuses.

Currently, we grant stock options to our employees, including executive officers from our 2003 Supplemental Stock Option Plan, our 2002 Stock Incentive Plan, and our 1997 Stock Option Plan. In addition, we are able to grant stock options from our 1998 Stock Option Plan. Our standard options vest over a four-year period, with 25% vesting after one year from the date of grant and 75% vesting monthly over the following three years. For most grantees, options expire at the earlier of either three months after termination of the grantee's employment or ten years after the date of grant.

Under our 2002 Stock Incentive Plan, we automatically grant options to non-employee directors on a non-discretionary basis. Upon first joining the Board, each non-employee director is granted options to acquire 30,000 shares of our common stock. Such shares vest one-third one year from the date of grant and 1/24th per month over the ensuing two years. Effective July 1, 2001, and on July 1 of each year thereafter, each non-employee director (excluding the Chairman of the Board) receives an annual stock option to purchase 12,500 shares of our common stock. The Chairman of the Board receives an annual stock option grant to purchase 17,500 shares of our common stock. In addition, each non-employee director that serves as a member on a committee of the Board receives an additional annual stock option to purchase 1,000 shares of our common stock for each committee on which they serve as a member. In addition to the options for service on the committee, a non-employee director that serves as the chairman of a committee of the Board receives an additional stock option to purchase 1,000 shares of our common stock for each such chairman position held per year. These stock options vest over a three-year vesting schedule with one-third of the options vesting one year from the date of the grant and the remaining two-thirds of the options vesting over the remaining two years on a monthly basis. In the event of a change of control of Borland, the options would become 100% vested.

At December 31, 2007, 5,695,409 shares were available for future grant under our various stock option plans. All options granted under the plans for the years ended December 31, 2007, 2006 and 2005 were priced at the fair market value on the date of grant, based on the closing price of our common stock as reported on the Nasdaq Stock Market on the date of grant, or if the date of grant is not a trading day, the trading day immediately prior to the date of grant.

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Stock Option Activities***

The following table presents a summary of our stock option activity for the year ended December 31, 2007 (shares in thousands):

|  | <u>Shares</u> | <u>Weighted-Average Exercise Price</u> | <u>Weighted-Average Remaining Contractual Term (Years)</u> | <u>Aggregate Intrinsic Value (Thousands)</u> |
|--|---------------|--|--|--|
| Outstanding at December 31, 2006                 | 14,840        | \$ 8.04                                |  |  |
| Granted  | 2,861         | \$ 5.69                                |  |  |
| Exercised  | (217)         | \$ 5.35                                |  |  |
| Forfeited/expired                                | (4,874)       | \$ 8.49                                |  |  |
| Outstanding at December 31, 2007                 | <u>12,610</u> | <u>\$ 7.38</u>                         | <u>6.46</u>  | <u>\$ —</u>                                  |
| Vested and expected to vest at December 31, 2007 | <u>10,589</u> | <u>\$ 7.70</u>                         | <u>6.01</u>  | <u>\$ —</u>                                  |
| Exercisable at December 31, 2007                 | <u>7,231</u>  | <u>\$ 8.64</u>                         | <u>4.67</u>  | <u>\$ —</u>                                  |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Borland's closing stock price on the last trading day of fiscal 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. This amount changes based on the fair market value of Borland's stock. Total intrinsic value of options exercised in fiscal 2007 and 2006 was \$0.1 million and \$0.5 million, respectively.

The following table summarizes our stock option activity and related weighted-average exercise prices within each category for the years ended December 31, 2007, 2006 and 2005 relating to our stock incentive plans (in thousands, except share price data):

|   | <u>Year Ended December 31,</u> |                |               |                |               |                |
|---|--------------------------------|----------------|---------------|----------------|---------------|----------------|
|   | <u>2007</u>                    |                | <u>2006</u>   |                | <u>2005</u>   |                |
|   | <u>Shares</u>                  | <u>Price</u>   | <u>Shares</u> | <u>Price</u>   | <u>Shares</u> | <u>Price</u>   |
| Options outstanding at beginning of period: | 14,840                         | \$ 8.04        | 16,030        | \$ 9.23        | 12,567        | \$ 10.99       |
| Stock options:                              |                                |                |               |                |               |                |
| Granted                                     | 2,861                          | \$ 5.69        | 4,290         | \$ 5.44        | 6,721         | \$ 6.69        |
| Exercised                                   | (217)                          | \$ 5.35        | (389)         | \$ 4.59        | (367)         | \$ 5.85        |
| Canceled                                    | (4,874)                        | \$ 8.49        | (5,091)       | \$ 9.87        | (2,891)       | \$ 11.47       |
| Options outstanding at end of period:       | <u>12,610</u>                  | <u>\$ 7.38</u> | <u>14,840</u> | <u>\$ 8.04</u> | <u>16,030</u> | <u>\$ 9.23</u> |
| Exercisable                                 | 7,231                          | \$ 8.64        | 9,283         | \$ 9.47        | 12,581        | \$ 10.09       |

The weighted-average fair value of the stock options granted under the employee stock incentive plans during the years ended December 31, 2007, 2006 and 2005, as defined by SFAS 123R was \$2.45, \$2.56 and \$3.80, respectively.

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table summarizes information about stock options outstanding at December 31, 2007 (options outstanding and exercisable are in thousands):

|                    | Options Outstanding                     |   |                                 | Options Exercisable                     |                                 |
|--------------------|---|---|---------------------------------|---|---------------------------------|
|                    | Number Outstanding at December 31, 2007 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at December 31, 2007 | Weighted-Average Exercise Price |
| \$3.05 – \$5.44    | 2,763                                   | 8.42  | \$ 5.11                         | 868                                     | \$ 5.17                         |
| \$5.45 – \$5.84    | 2,600                                   | 4.61  | \$ 5.60                         | 2,000                                   | \$ 5.62                         |
| \$5.85 – \$6.42    | 3,954                                   | 8.62  | \$ 6.14                         | 1,082                                   | \$ 6.32                         |
| \$6.50 – \$13.17   | 2,608                                   | 3.91  | \$ 9.26                         | 2,596                                   | \$ 9.27                         |
| \$13.30 – \$714.22 | 685                                     | 2.72  | \$ 23.17                        | 685                                     | \$ 23.17                        |
|                    | <u>12,610</u>                           | 6.46  | \$ 7.38                         | <u>7,231</u>                            | \$ 8.64                         |

The weighted-average remaining contractual life for all exercisable stock options at December 31, 2007 was 2.64 years.

In October 2005, the Board of Directors approved the acceleration of vesting for all unvested stock options granted prior to September 30, 2005 with an exercise price higher than the closing price of Borland's Common Stock on November 4, 2005, which was \$5.67 per share.

***Restricted Stock***

We have granted restricted shares to key employees, including officers, under our 2003 Supplemental Stock Option Plan and our 2002 Stock Incentive Plan. These plans provide for the granting of restricted stock and/or performance awards to officers and key employees. Restricted shares issued under these plans are considered outstanding at the time of grant, as the stockholders are entitled to voting rights.

During the years ended December 31, 2007 and 2006, we granted no shares and 362,500 shares, respectively, of restricted stock to certain employees and officers with a cash purchase price of \$0.01 per share and a vesting term of up to five years. The restricted stock is subject to repurchase if employment terminates prior to vesting. During the years ended December 31, 2007, 2006 and 2005 we recognized \$1.6 million, \$3.5 million and \$1.5 million, respectively, of compensation expense related to our restricted stock grants. At December 31, 2007, 255,018 restricted shares remained outstanding and the unamortized compensation balance related to these shares was \$0.9 million.

A summary of the status for unvested stock awards as of December 31, 2007, and activities during fiscal year 2007, is presented as follows (in thousands, except per share data):

|                              | Unvested Restricted Stock Outstanding | Weighted Average Grant Date Fair Value |
|------------------------------|---------------------------------------|--|
| Balance at December 31, 2006 | 850                                   | \$ 5.95                                |
| Granted                      | —                                     | \$ —                                   |
| Vested                       | (465)                                 | \$ 5.91                                |
| Forfeited                    | (130)                                 | \$ 5.73                                |
| Balance at December 31, 2007 | <u>255</u>                            | <u>\$ 6.14</u>                         |

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

No restricted stock was granted during the year ended December 31, 2007, and the fair value of restricted stock vested during the year ended December 31, 2007 and 2006 was \$2.2 million and \$2.5 million, respectively.

***Employee Stock Purchase Plan***

Our Employee Stock Purchase Plan, or ESPP, allows our eligible employees, and the eligible employees of our subsidiaries, to purchase shares of our common stock through payroll deductions. Purchases are limited to a maximum of 15% of the employee's compensation, subject to a total annual employee purchase limit of \$25,000 worth of our common stock. In addition, the maximum number of shares a participant may purchase in an offering period is 1,250 shares. The ESPP shares may be purchased by participants at 85% of the lower of the fair value of the common stock on the purchase date as reported by the Nasdaq Stock Market at the beginning of the offering period or the fair value on the purchase date.

There are two offering periods which last six months each and generally begin on or about December 1 of each year and on or about June 1 of each year. Each offering period may be adjusted or suspended under the ESPP by our Board of Directors. Each offering period comprises a single purchase period.

In June 2003, our stockholders approved an amendment to our 1999 Employee Stock Purchase Plan to increase the shares authorized for issuance by 900,000 shares, in May 2005, our stockholders approved an amendment to our 1999 Employee Stock Purchase Plan to increase the shares authorized for issuance by an additional 900,000, bringing the total authorized to 4,000,000, and in May 2007, our stockholders approved an amendment to our 1999 Employee Stock Purchase Plan to increase the shares authorized for issuance by an additional 2,500,000, bringing the total authorized to 6,500,000.

Of the 6,500,000 shares of common stock that have been reserved for issuance under the plan, 3,926,418 shares were issued through December 31, 2007. Sales to employees under the plan during the years ended December 31, 2007, 2006 and 2005 were 236,055, 686,188 and 640,793 shares of common stock at an average price of \$2.75, \$4.50 and \$5.33 per share, respectively.

The weighted-average fair value of those purchase rights granted during the years ended December 31, 2007, 2006 and 2005, as defined by SFAS 123R, was \$1.40, \$1.76 and \$1.84, respectively.

Our ESPP is deemed to be compensatory, and therefore, ESPP expenses under SFAS 123R have been included in our Condensed Consolidated Statements of Operations for the year ended December 31, 2007 and 2006.

***Stock-Based Compensation Expense***

During the twelve months ended December 31, 2007, we recorded \$4.4 million of stock based compensation. No stock-based compensation costs were capitalized as part of the cost of an asset as of December 31, 2007. As of December 31, 2007, total unrecognized stock-based compensation costs related to stock options, employee stock purchase plan and restricted stock amounted to \$9.5 million, net of estimated forfeitures. Unvested stock-based compensation costs will be recognized as the underlying stock option or restricted stock vests over a period of up to 5 years. At December 31, 2007, our outstanding options had a weighted average remaining contractual term of 6.46 years. As of December 31, 2007, our unrecognized compensation cost related to stock options amounted to \$8.5 million and is expected to be recognized over a weighted-average period of 2.6 years. At December 31, 2007, our unrecognized stock-based compensation cost related to restricted stock amounted to \$0.9 million and is expected to be recognized over a weighted-average period of 1.31 years. The amount of unrecognized stock-based compensation will be affected by any future stock option or restricted stock grants and by restructuring activities that include the termination of any employee that has received stock option or restricted stock grants that are unvested as of their termination date.

At December 31, 2007, based on our historical experience of unvested option cancellations, we have assumed an annualized forfeiture rate of approximately 12.2% for our options granted to executive officers and 24.2% for our

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

options granted to non-executive officers. Under the true-up provisions of SFAS 123R, we will record additional expense if the actual forfeiture rate is lower than we estimated, and will record a recovery of prior expense if the actual forfeiture is higher than we estimated.

During the twelve months ended December 31, 2006, and as a result of the adoption of SFAS 123R, we recorded \$7.2 million of stock-based compensation expense. Prior to the adoption of SFAS 123R, we presented unearned stock-based compensation as a separate component of stockholders' equity. Our deferred compensation balance of \$7.2 million as of December 31, 2005, which was accounted for under APB 25, was reclassified into our additional paid-in-capital upon the adoption of SFAS 123R.

No stock-based compensation costs were capitalized as part of the cost of an asset as of December 31, 2006. As of December 31, 2006, total unrecognized stock-based compensation costs related to stock options, employee stock purchase plan and restricted stock amounted to \$13.1 million, net of estimated forfeitures. Unvested stock-based compensation costs will be recognized as the underlying stock option or restricted stock vests over a period of up to 5 years. At December 31, 2006, our outstanding options had a weighted average remaining contractual term of 7.49 years. As of December 31, 2006, our unrecognized compensation cost related to stock options amounted to \$9.9 million and is expected to be recognized over a weighted-average period of 1.59 years. At December 31, 2006, our unrecognized stock-based compensation cost related to restricted stock amounted to \$3.2 million and is expected to be recognized over a weighted-average period of 1.38 years. The amount of unrecognized stock-based compensation will be affected by any future stock option or restricted stock grants and by restructuring activities that include the termination of any employee that has received stock option or restricted stock grants that are unvested as of their termination date.

At December 31, 2006, based on our historical experience of pre-vesting option cancellations, we have assumed an annualized forfeiture rate of approximately 1.3% for our options granted to executive officers and 14.7% for our options granted to non-executive officers. Under the true-up provisions of SFAS 123R, we will record additional expense if the actual forfeiture rate is lower than we estimated, and will record a recovery of prior expense if the actual forfeiture is higher than we estimated.

***Assumptions for Estimating Fair Value of Stock Option Grants and Stock Purchases***

Upon adoption of SFAS No. 123R, we selected the Black-Scholes option pricing model as the most appropriate model for determining the estimated fair value for stock-based awards. The use of the Black-Scholes model requires the use of extensive actual employee exercise behavior data and the use of a number of complex assumptions including expected volatility, risk-free interest rate and expected dividends. For pro forma disclosure purposes under the SFAS No. 123 and SFAS No. 148, we also used the Black-Scholes model for determining the fair value.

The following table summarizes the assumptions used to value options granted in the respective periods:

|                         | Year Ended December 31, |            |           |
|-------------------------|-------------------------|------------|-----------|
|                         | 2007                    | 2006       | 2005      |
| Expected Life           | 4.90 years              | 5.01 years | 4.0 years |
| Risk-free interest rate | 4.74%                   | 4.51%      | 4.39%     |
| Volatility              | 41.7%                   | 47.5%      | 57.0%     |
| Dividend yield          | 0.00%                   | 0.00%      | 0.00%     |

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table summarizes the assumptions used to value employee stock purchase in the respective periods:

|                         | Year Ended December 31, |          |          |
|-------------------------|-------------------------|----------|----------|
|                         | 2007                    | 2006     | 2005     |
| Expected Life           | 6 months                | 6 months | 6 months |
| Risk-free interest rate | 5.02%                   | 4.39%    | 4.32%    |
| Volatility              | 31.0%                   | 40.7%    | 38.0%    |
| Dividend yield          | 0.00%                   | 0.00%    | 0.00%    |

The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding. We derived the expected term assumption based on our historical settlement experience, while giving consideration to options that have lives less than the contractual terms and vesting schedules in accordance with guidance in SFAS 123R and SAB 107. Prior to the adoption of SFAS 123R, we used our historical settlement experience to derive the expected term for the purposes of pro forma information under SFAS 123. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options.

Beginning January 1, 2006, we estimated the volatility of our stock using historical volatility as well as the implied volatility in market-traded options on our common stock in accordance with guidance in SFAS 123R and SAB 107. Management determined that a blend of implied volatility and historical volatility is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. We will continue to monitor these and other relevant factors used to measure expected volatility for future option grants. Prior to the adoption of SFAS 123R, we had used our historical stock price volatility in accordance with SFAS 123 for purposes of pro forma information disclosed in our notes to Consolidated Financial Statements for the related periods. The dividend yield assumption is based on our history and expectation of dividend payouts.

Total stock-based compensation recognized in our Condensed Consolidated Statements of Operations for the twelve months ended December 31, 2007 and 2006 are as follows (in thousands):

|                                     | Twelve Months Ended December 31, 2007 |                                |                  |                 |
|-------------------------------------|---------------------------------------|--------------------------------|------------------|-----------------|
|                                     | Stock Options                         | Employee Stock Purchase Rights | Restricted Stock | Total           |
| Cost of service revenues            | \$ 100                                | \$ 5                           | \$ 64            | \$ 169          |
| Selling, general and administrative | 3,127                                 | 126                            | 1,254            | 4,507           |
| Research and development            | 966                                   | 82                             | 309              | 1,357           |
| Total                               | <u>\$ 4,193</u>                       | <u>\$ 213</u>                  | <u>\$ 1,627</u>  | <u>\$ 6,033</u> |

|                                     | Twelve Months Ended December 31, 2006 |                                |                  |                  |
|-------------------------------------|---------------------------------------|--------------------------------|------------------|------------------|
|                                     | Stock Options                         | Employee Stock Purchase Rights | Restricted Stock | Total            |
| Cost of service revenues            | \$ 204                                | \$ 59                          | \$ 168           | \$ 431           |
| Selling, general and administrative | 4,768                                 | 528                            | 3,083            | 8,379            |
| Research and development            | 1,278                                 | 336                            | 264              | 1,878            |
| Total                               | <u>\$ 6,250</u>                       | <u>\$ 923</u>                  | <u>\$ 3,515</u>  | <u>\$ 10,688</u> |

We have also granted restricted stock to certain employees with a cash purchase price less than the closing market price of the underlying stock on the date of grant. Our restricted common stock awards generally vest over two to five years from the date of grant based on continued service and other performance factors. The vesting of restricted stock granted to our Chief Executive Officer may accelerate upon our achievement of corporate

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

performance targets established by the Compensation Committee of the Board of Directors, in accordance with his employment contract. We recorded as stock-based compensation within stockholders' equity the aggregate amount by which the closing price of our common stock on the date of grant exceeded the cash purchase price of the restricted common stock. Stock-based compensation associated with these grants is amortized to operating expenses over the respective vesting term.

**NOTE 13. EMPLOYEE 401(k) PLAN**

We maintain a 401(k) retirement savings plan, or the Plan, for our full-time employees. Each participant in the Plan may elect to contribute up to \$15,500 of his or her annual compensation to the Plan for 2007. The limit for 2007 was \$15,500 and the limit for 2006 was \$15,000. We match employee contributions at a rate of 50% to a maximum of 6% of the employees' annual compensation. Employer contributions are fully vested at the time they occur. During 2007, 2006, and 2005, our contributions amounted to \$1.4 million, \$1.5 million and \$1.5 million, respectively.

**NOTE 14. STOCKHOLDER RIGHTS AGREEMENT**

In October 2001, we adopted a Stockholder Rights Plan to protect the stockholders in the event that a third-party proposes an unsolicited takeover of Borland that has not been recommended or approved by the Board of Directors. This rights plan replaced an earlier rights plan, which would have expired in December 2001. Under the Stockholder Rights Plan, each share of our outstanding common stock carries one preferred share purchase right, or Right. Each Right entitles the holder, other than the acquiring person or entity to purchase 1/1,000 of a share of our series d junior participating preferred stock at an exercise price of \$80.00. The rights only become exercisable in certain limited circumstances following the tenth day after a person or group announces acquisition of or tender offers for 15% or more of our common stock. For a limited period of time after the time the Rights become exercisable, each right is redeemable at \$0.01 per Right at a nominal price and expires in December 2011.

**NOTE 15. REPORTABLE SEGMENTS**

Statement of Financial Accounting Standards No. 131, "*Disclosures about Segments of an Enterprise and Related Information*," establishes standards for reporting information about operating segments in a company's financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Borland's chief operating decision maker, or CODM, is its Chief Executive Officer.

***Description of Segments***

Effective January 1, 2007, consistent with how we manage our business, we changed from reporting one segment to reporting two segments: Enterprise and CodeGear. A summary of the types of products and services provided by the Enterprise and CodeGear segments is provided below.

*Enterprise.* Our Enterprise segment focuses on Open Application Lifecycle Management solutions, or ALM, which includes a combination of software products as well as consulting and education services to help our customers better manage their software development projects. Our ALM portfolio includes products and services for project and portfolio management, requirements definition and management, lifecycle quality management, software configuration and change management and modeling. The Enterprise segment also includes our Deployment Product Group, or DPG, products.

*CodeGear.* Our CodeGear segment focuses on developing tools for individual developers and currently offers a number of Integrated Developer Environment, or IDE, and database products for Java, .NET and Windows

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

development. CodeGear products include Delphi, Delphi for PHP, C++Builder, C#Builder, JBuilder, Turbo™ and Interbase. CodeGear also provides worldwide developer support and education services.

***Segment Data***

We derive the results of the business segments directly from our internal management reporting system. The accounting policies we use to derive business segment results are substantially the same as those the consolidated company uses. Management, under the direction of the CODM, measures the performance of each business segment based on several metrics, including earnings from operations. Additionally, management, under the direction of the CODM, uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. We do not allocate costs to CodeGear that are not directly attributable to CodeGear. We have no intersegment revenue. Discrete operating financial information for the new segments has not been prepared for periods prior to January 1, 2007, as we have concluded it is not practicable for us to prepare such information.

Selected operating results information for each business segment was as follows (in thousands):

|                            | <b>Twelve Months Ended December 31, 2007</b> |                 |              |
|----------------------------|--|-----------------|--------------|
|                            | <b>Enterprise</b>                            | <b>CodeGear</b> | <b>Total</b> |
| License and other revenues | \$ 96,686                                    | \$ 40,672       | \$ 137,358   |
| Service revenues           | 115,100                                      | 16,323          | 131,423      |
| Total revenues             | \$ 211,786                                   | \$ 56,995       | \$ 268,781   |
| Operating loss             | \$ (43,897)                                  | \$ (17,143)     | \$ (61,040)  |

For the years ended December 31, 2007 and 2006, we have allocated goodwill and other long-lived assets to our reportable segments as follows (in thousands):

|                          | <b>Year Ended December 31, 2007</b> |                 |              |
|--------------------------|-------------------------------------|-----------------|--------------|
|                          | <b>Enterprise</b>                   | <b>CodeGear</b> | <b>Total</b> |
| Long-lived assets:       |                                     |                 |              |
| Goodwill                 | \$ 185,857                          | \$ 40,831       | \$ 226,688   |
| Other non-current assets | 88,969                              | 541             | 89,510       |
| Non-current assets       | 274,826                             | 41,372          | 316,198      |
| Total assets             | \$ 494,889                          | \$ 49,128       | \$ 544,017   |

|                          | <b>Year Ended December 31, 2006</b> |                 |              |
|--------------------------|-------------------------------------|-----------------|--------------|
|                          | <b>Enterprise</b>                   | <b>CodeGear</b> | <b>Total</b> |
| Long-lived assets:       |                                     |                 |              |
| Goodwill                 | \$ 186,016                          | \$ 67,340       | \$ 253,356   |
| Other non-current assets | 57,828                              | 574             | 58,402       |
| Non-current assets       | 243,844                             | 67,914          | 311,758      |
| Total assets             | \$ 343,508                          | \$ 100,391      | \$ 443,899   |

***Enterprise-wide disclosures***

We have various wholly-owned subsidiaries, which develop, market and/or distribute our products in other countries. In certain international markets not covered by our international subsidiaries, we generally sell through independent distributors. For our geographic disclosures, inter-company transactions are recorded at either cost or applicable transfer price, as appropriate. Inter-company transactions and balances are eliminated upon

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

consolidation. Our geographical summary results of operation for the years ended December 31, 2007, 2006 and 2005, are as follows (amounts in thousands):

|  | Year Ended December 31, |                    |                    |
|--|-------------------------|--------------------|--------------------|
|  | 2007                    | 2006               | 2005               |
| <b>Total revenues from unaffiliated customers:</b>                           |                         |                    |                    |
| Americas   | \$ 136,967              | \$ 168,278         | \$ 138,008         |
| EMEA   | 98,658                  | 99,218             | 97,529             |
| Asia Pacific   | 33,156                  | 37,164             | 41,206             |
| <b>Total revenues</b>  | <b>268,781</b>          | <b>304,660</b>     | <b>276,743</b>     |
| License and other revenues   | \$ 137,358              | \$ 165,886         | \$ 163,182         |
| Technical Support  | 102,273                 | 99,713             | 84,525             |
| Consulting and education services  | 29,150                  | 39,061             | 29,036             |
| <b>Total revenues</b>  | <b>268,781</b>          | <b>304,660</b>     | <b>276,743</b>     |
| Inter-company revenue U.S.   | \$ 19,412               | \$ 11,264          | \$ 10,493          |
| Elimination of inter-company-revenues  | (19,412)                | (11,264)           | (10,493)           |
| <b>Reported inter-company revenues</b>                                       | <b>\$ —</b>             | <b>\$ —</b>        | <b>\$ —</b>        |
| <b>Operating income (loss):</b>  |                         |                    |                    |
| Americas   | \$ (88,958)             | \$ (76,308)        | \$ (81,422)        |
| EMEA   | 21,914                  | 18,955             | 35,912             |
| Asia Pacific   | 6,004                   | 4,260              | 10,535             |
| <b>Operating loss:</b>   | <b>(61,040)</b>         | <b>(53,093)</b>    | <b>(34,975)</b>    |
| Gain on sales of investment  | —                       | —                  | 4,372              |
| Interest and other income, net   | 2,503                   | 3,662              | 5,155              |
| <b>Loss before income taxes</b>  | <b>\$ (58,537)</b>      | <b>\$ (49,431)</b> | <b>\$ (25,448)</b> |
| <b>Long-lived assets:</b>  |                         |                    |                    |
| Americas   | \$ 53,559               | \$ 11,143          | \$ 21,546          |
| EMEA   | 2,621                   | 2,549              | 2,103              |
| Asia Pacific   | 1,672                   | 4,190              | 4,146              |
| <b>Long-lived assets:</b>  | <b>57,852</b>           | <b>17,882</b>      | <b>27,795</b>      |
| Other non-current assets   | 258,346                 | 293,876            | 191,422            |
| <b>Non-current assets</b>  | <b>316,198</b>          | <b>311,758</b>     | <b>219,217</b>     |
| <b>Identifiable assets:</b>  |                         |                    |                    |
| Americas   | \$ 344,907              | \$ 339,424         | \$ 243,119         |
| EMEA   | 31,691                  | 38,308             | 33,990             |
| Asia Pacific   | 8,553                   | 10,850             | 12,343             |
| <b>Identifiable assets:</b>  | <b>385,151</b>          | <b>388,582</b>     | <b>289,452</b>     |
| General corporate assets (cash, cash equivalents and short-term investments) | 158,866                 | 55,317             | 175,078            |
| <b>Total assets</b>  | <b>544,017</b>          | <b>443,899</b>     | <b>464,530</b>     |

Our Americas operations include our activities in the United States as well as subsidiaries and branch offices in Brazil and Canada. Our Europe, Middle East and Africa, or EMEA, operations include activities of our subsidiaries

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

and branch offices in Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom. Our Asia Pacific, or APAC, operations include activities of our subsidiaries and branch offices in Australia, China, Hong Kong, India, Japan, New Zealand, Singapore and Taiwan.

Total revenues from our most significant operations by country and their percentage of total revenues for 2007, 2006 and 2005 were as follows (dollars in thousands):

|                     | 2007              |             | 2006              |             | 2005              |             |
|---------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| United States       | \$ 112,652        | 42%         | \$ 147,050        | 48%         | \$ 118,936        | 43%         |
| Germany             | 30,666            | 11%         | 29,210            | 10%         | 31,010            | 11%         |
| United Kingdom      | 28,281            | 11%         | 24,427            | 8%          | 22,484            | 8%          |
| All other countries | 97,182            | 36%         | 103,973           | 34%         | 104,313           | 38%         |
| Total revenues      | <u>\$ 268,781</u> | <u>100%</u> | <u>\$ 304,660</u> | <u>100%</u> | <u>\$ 276,743</u> | <u>100%</u> |

No other single country accounted for revenues greater than 10% of total revenues in the years ended December 31, 2007, 2006, or 2005.

Revenues, operating results and identifiable assets are classified by location of our facilities rather than by customer location. Revenues related to product transfers between geographic areas were not significant. Export revenues from the United States represented \$19.4 million, \$21.2 million and \$19.1 million during the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 16. COMMITMENTS AND CONTINGENCIES*****Indemnifications and Guarantees***

The following is a summary of our agreements that we have determined are within the scope of FASB Interpretation No. 45, “*Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*,” some of which are specifically grandfathered in because the guarantees were in effect prior to December 31, 2002. Accordingly, we have no liabilities recorded for these agreements as of December 31, 2007, except as described below.

We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving in such capacity. The term of the indemnification period is for the officers’ or directors’ lifetime. In connection with certain previous acquisitions, we have assumed the acquired entity’s obligations to indemnify its directors and officers prior to the closing of the respective acquisition. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that in certain circumstances enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal.

As part of the Starbase, TogetherSoft and Segue acquisitions, we entered into agreements whereby we indemnify the officers and directors of the acquired companies for certain events or occurrences while such officers or directors served in such capacity. The term of the indemnification period in the Starbase and TogetherSoft acquisitions is for the officers’ or directors’ lifetime, and in the Segue acquisition the term is for six years. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have purchased directors’ and officers’ insurance policies for Starbase and TogetherSoft, if applicable, through 2009, and for Segue through 2012, which in certain circumstances enable us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal.

**BORLAND SOFTWARE CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We sell software licenses and services to our customers via contractual arrangements. As part of those contractual arrangements, we generally provide a warranty for our software products and services to our customers. Our products are generally warranted to perform substantially as described in the associated product documentation. Our services are generally warranted to be performed in a professional manner. We have not incurred significant expense under our product or services warranties. As a result, we believe the estimated fair value of these agreements is minimal.

We also enter into standard indemnification agreements in our ordinary course of business with our customers, suppliers and other third-party providers. With respect to our customer license agreements, each contract generally includes certain provisions for indemnifying the customer against losses, damages, expenses and liabilities incurred by the customer in the event our software is found to infringe upon certain intellectual property rights of a third-party. In our services agreements, we generally agree to indemnify our customers against any acts by our employees or agents that cause property damage or personal injury. In our technology license agreements, we also generally agree to indemnify our technology suppliers against any losses, damages, expenses and liabilities incurred by the suppliers in connection with certain intellectual property right infringement claims by any third-party with respect to our products. Finally, from time to time we enter into other industry-standard indemnification agreements with third-party providers. The maximum potential amount of future payments we could be required to make under any of these indemnification agreements is presently unknown. To date, we have not incurred significant expense to defend lawsuits or settle claims related to these indemnification agreements. As a result, we believe the estimated fair value of these agreements is minimal.

We also have arrangements with certain vendors whereby we guarantee the expenses incurred by the vendor. The term is from execution of the arrangement until cancellation and payment of any outstanding amounts. We would be required to pay any unsettled expenses upon notification from the vendor. The maximum potential amount of future payments we could be required to make under these indemnification agreements is insignificant. As a result, we believe the estimated fair value of these agreements is minimal. Additionally, from time to time we enter into agreements with certain customers in certain foreign jurisdictions, which provide for penalties to be incurred if specific non-performance or breach of agreement occurs on our behalf. To date we have not incurred a significant expense in relation to these penalties and we believe the estimated fair value of these penalties is minimal.

***Leases***

We lease certain of our office and operating facilities and certain of our furniture and equipment under various operating leases. In connection with our acquisition of Segue we acquired a capital lease for leasehold improvements on a facility in Austria. At December 31, 2007 the obligation totaled \$0.1 million which is payable through 2010.

Our operating leases expire at various times through 2021. At December 31, 2007, future minimum lease and sublease payments under non-cancelable operating leases and subleases and future minimum lease and sublease income under non-cancelable leases and subleases were as follows (in thousands):

|                               | <u>Less than<br/>1 Year</u> | <u>1-3 Years</u> | <u>3-5 Years</u>  | <u>More than<br/>5 Years</u> | <u>Total</u>      |
|-------------------------------|-----------------------------|------------------|-------------------|------------------------------|-------------------|
| Operating leases              | \$ 10,721                   | \$ 19,422        | \$ 7,418          | \$ 6,639                     | \$ 44,200         |
| Restructured operating leases | 5,914                       | 12,107           | 4,843             | —                            | 22,864            |
| Convertible senior notes      | —                           | —                | 200,000           | —                            | 200,000           |
| Capital lease                 | 41                          | 84               | —                 | —                            | 125               |
| Gross commitments             | 16,676                      | 31,613           | 212,261           | 6,639                        | 267,189           |
| Sublease income               | (3,056)                     | (8,580)          | (4,909)           | —                            | (16,545)          |
| Net commitments               | <u>\$ 13,620</u>            | <u>\$ 23,033</u> | <u>\$ 207,352</u> | <u>\$ 6,639</u>              | <u>\$ 250,644</u> |

**BORLAND SOFTWARE CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Rent expense, net, for all operating leases was \$9.5 million, \$12.3 million and \$11.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The restructured operating leases above represent total lease commitments that are not associated with continuing operations and include exited facilities located in California, North Carolina and Sweden.

***Litigation***

From time to time, we are involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. In accordance with SFAS 5, “*Accounting for Contingencies*,” we record a liability when it is both probable a liability has been incurred and the amount of the loss can be reasonably estimated. These accruals are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable; however, we believe that we have valid defenses with respect to the legal matters pending against us, as well as adequate accruals for any probable and estimable losses. If an unanticipated or unfavorable ruling or settlement were to occur in any of these matters in a particular period, our liquidity and financial condition could be adversely impacted, as well as our results of operations and cash flows.

From time to time, we receive notices from third-parties claiming infringement by our products of third-party patent, trademark and other intellectual property rights, disputing royalties, or disputing other commercial arrangements. Regardless of the merit of any such claim, responding to these claims could be time consuming and expensive and may require us to enter into licensing or royalty agreements which may not be offered or available on terms acceptable to us. If a successful claim is made against us, our business could be materially and adversely affected. We expect that our software products will increasingly be subject to such claims as the number of products and competitors in our industry segment increases, the functionality of products overlap and industry participants become more aggressive in using patents offensively.

***Service Commitments***

At December 31, 2007, we had a commitment regarding outsourcing arrangements for portions of our information technology operations. We terminated the contract for this service on January 30, 2008 with an effective date of July 30, 2008. We will incur a termination fee of \$0.9 million during 2008. This amount is not included in the operating lease commitments table above.

**SCHEDULE II  
BORLAND SOFTWARE CORPORATION**

**VALUATION AND QUALIFYING ACCOUNTS  
For the Years Ended December 31, 2007, 2006 and 2005**

|  | <u>Balance<br/>at<br/>Beginning<br/>of Period</u> | <u>Charged<br/>to<br/>Statements<br/>of<br/>Operations</u> | <u>Deductions<br/>From<br/>Reserves</u> | <u>Balance<br/>at End of<br/>Period</u> |
|--|---|--|---|---|
| <b>December 31, 2007:</b>                                  |   |  |   |   |
| Allowance for sales returns, rebates and doubtful accounts | \$ 5,413  | 1,570  | \$ 887                                  | \$ 6,096                                |
| <b>December 31, 2006:</b>                                  |   |  |   |   |
| Allowance for sales returns, rebates and doubtful accounts | \$ 7,235  | \$ (2,946)   | \$ (1,124)                              | \$ 5,413                                |
| <b>December 31, 2005:</b>                                  |   |  |   |   |
| Allowance for sales returns, rebates and doubtful accounts | \$ 9,830  | \$ 3,005   | \$ 5,600                                | \$ 7,235                                |

F-45

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description of Exhibit</b>   | <b>Incorporated by Reference</b> |             |               | <b>Filed<br/>Herewith</b> |
|---------------------------|---|----------------------------------|-------------|---------------|---------------------------|
|                           |   | <b>Form</b>                      | <b>Date</b> | <b>Number</b> |                           |
| 2.1                       | Agreement and Plan of Merger, dated as of February 7, 2006, by and among Segue Software, Inc., Borland Software Corporation and Beta Merger Sub, Inc. | 8-K                              | 2/8/2006    | 2.1           |                           |
| 2.2                       | Form of Voting Agreement, dated as of February 7, 2006, by and among Borland Software Corporation and the other parties signatory thereto             | 8-K                              | 2/8/2006    | 2.2           |                           |
| 3.1                       | Restated Certificate of Incorporation of Borland Software Corporation   | 10-Q                             | 8/9/2005    | 3.1           |                           |
| 3.2                       | Amended and Restated Bylaws of Borland Software Corporation   | 10-Q                             | 8/9/2005    | 3.2           |                           |
| 4.1                       | Stockholder Rights Agreement, dated as of October 26, 2001, between Borland Software Corporation and Mellon Investor Services, L.L.C.                 | 8-A                              | 10/31/2001  | 1             |                           |
| 4.2                       | Specimen Stock Certificate of Borland Software Corporation  | 10-Q                             | 5/13/2002   | 4.1           |                           |
| 4.3                       | Indenture by and between the Company and U.S. Bank National Association, as trustee, dated February 6, 2007   | 8-K                              | 2/08/2007   | 4.1           |                           |
| 4.4                       | Global Note representing the Company's 2.75% Convertible Senior Note due 2012   | 8-K                              | 2/08/2007   | 4.2           |                           |
| 4.5                       | Registration Rights Agreement by and between the Company and J.P. Morgan Securities Inc., dated February 6, 2007                                      | 8-K                              | 2/08/2007   | 4.3           |                           |
| 10.1                      | Form of Indemnity Agreement.+   | S-8                              | 9/26/1990   |               |                           |
| 10.2                      | 2005 Incentive Compensation Plan for Executive Officers.+   | 10-K                             | 3/25/2005   | 10.2          |                           |
| 10.3                      | 2006 Incentive Compensation Plan for Executive Officers.+   | 8-K                              | 3/20/2006   | 10.86         |                           |
| 10.4                      | 1985 Stock Option Plan.+  | 10-K                             | 3/28/2003   | 10.4          |                           |
| 10.5                      | Non-Employee Directors' Stock Option Plan.+   | 8-K                              | 12/27/1991  |               |                           |
| 10.6                      | 1992 Stock Option Plan.+  | S-8                              | 7/4/1992    |               |                           |
| 10.7                      | 1993 Stock Option Plan.+  | S-8                              | 3/11/1993   |               |                           |
| 10.8                      | 1997 Stock Option Plan.+  | S-8                              | 12/19/1997  | 4.4           |                           |
| 10.9                      | Amendment to the 1997 Stock Option Plan.+   | S-8                              | 9/1/2000    | 4.9           |                           |
| 10.10                     | Second Amendment to the 1997 Stock Option Plan.+  | S-8                              | 6/1/2001    | 4.6           |                           |
| 10.11                     | 1997 Employee Stock Purchase Plan.+   | S-8                              | 12/19/1997  | 4.5           |                           |
| 10.12                     | 1998 Nonstatutory Stock Option Plan.+   | 10-K                             | 3/28/2003   | 10.12         |                           |
| 10.13                     | 1999 Employee Stock Purchase Plan.+   | 10-Q                             | 8/9/2005    | 10.12         |                           |
| 10.14                     | Borland Software Corporation Dale Fuller Individual Stock Option Plan.+   | 10-K                             | 4/4/2000    | 10.18         |                           |
| 10.15                     | 2002 Stock Incentive Plan.+   | 8-K                              | 5/16/2005   | 99.2          |                           |
| 10.16                     | Form of Notice of Grant under the Discretionary Option Grant Program of the 2002 Stock Incentive Plan.+   | 10-Q                             | 11/9/2004   | 10.73         |                           |
| 10.17                     | Form of Stock Option Agreement under the Discretionary Option Grant Program of the 2002 Stock Incentive Plan.+  | 10-Q                             | 11/9/2004   | 10.74         |                           |
| 10.18                     | Form of Stock Issuance Agreement under the 2002 Stock Incentive Plan.+  | 10-K                             | 3/25/2005   | 10.17         |                           |
| 10.19                     | Form of Option Agreement under the Automatic Option Grant Program of the 2002 Stock Incentive Plan.+  | 10-K                             | 3/25/2005   | 10.18         |                           |

[Table of Contents](#)

| Exhibit Number | Description of Exhibit   | Incorporated by Reference |            |        | Filed Herewith |
|----------------|--|---------------------------|------------|--------|----------------|
|                |  | Form                      | Date       | Number |                |
| 10.20          | Form of Addendum to Stock Option Agreement under the 2002 Stock Incentive Plan (Twelve Months Acceleration).+                                  | 10-K                      | 3/25/2005  | 10.19  |                |
| 10.21          | Form of Addendum to Stock Option Agreement under the 2002 Stock Incentive Plan (50% Acceleration).+  | 10-K                      | 3/25/2005  | 10.20  |                |
| 10.22          | Form of Addendum to Stock Option Agreement under the 2002 Stock Incentive Plan (100% Acceleration).+   | 10-K                      | 3/25/2005  | 10.21  |                |
| 10.23          | Form of Stock Issuance Agreement under the Stock Issuance Program of the 2002 Stock Incentive Plan.+   | 10-Q                      | 11/8/2005  | 10.74  |                |
| 10.24          | Form of Acceleration Addendum to Stock Issuance Agreement under the Stock Issuance Program of the 2002 Stock Incentive Plan.+                  | 10-Q                      | 11/8/2005  | 10.75  |                |
| 10.25          | Form of Stock Option Agreement under the Discretionary Option grant program of the 2002 Stock Incentive Plan, as amended on October 27, 2005.+ | 10-Q                      | 11/8/2005  | 10.76  |                |
| 10.26          | Form of Acceleration Addendum to Stock Option Agreement under the Discretionary grant program of the 2002 Stock Incentive Plan.+               | 10-Q                      | 11/8/2005  | 10.77  |                |
| 10.27          | Borland Software Corporation 2003 Supplemental Stock Option Plan.+   | 8-K                       | 3/20/2006  | 10.87  |                |
| 10.28          | Segue Software Inc. Special Termination and Vesting Plan.+   | 8-K                       | 7/6/2006   | 10.89  |                |
| 10.29          | Starbase Corporation 2001 Stock Plan.+   | S-8                       | 1/24/2003  | 99.1   |                |
| 10.30          | Starbase Corporation 1996 Stock Option Plan.+  | S-8                       | 1/24/2003  | 99.2   |                |
| 10.31          | Starbase Corporation NSO Stock Option Program.+  | S-8                       | 1/24/2003  | 99.3   |                |
| 10.32          | TogetherSoft Corporation 2000 Stock Plan.+   | S-8                       | 1/24/2003  | 99.6   |                |
| 10.33          | TogetherSoft Corporation 2001 Officer Stock Plan.+   | S-8                       | 1/24/2003  | 99.7   |                |
| 10.34          | TogetherSoft Corporation 2001 Non-U.S. Plan.+  | S-8                       | 1/24/2003  | 99.8   |                |
| 10.35          | TogetherSoft Corporation 2001 California Plan.+  | S-8                       | 1/24/2003  | 99.9   |                |
| 10.36          | Employment Agreement between Dale L. Fuller and Borland Software Corporation dated as of January 1, 2001.+                                     | 10-K                      | 3/29/2001  | 10.20  |                |
| 10.37          | Amendment to Employment Agreement between Borland Software Corporation and Dale L. Fuller, dated July 1, 2003.+                                | 10-Q                      | 11/14/2003 | 10.3   |                |
| 10.38          | Employment Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of August 7, 2002.+                                     | 10-Q                      | 11/14/2002 | 99.3   |                |
| 10.39          | Amendment to Employment Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of October 22, 2002.+                      | 10-Q                      | 11/14/2002 | 99.4   |                |
| 10.40          | Amendment to the Employment Agreement between Borland Software Corporation and Kenneth R. Hahn, dated as of June 7, 2004.+                     | 10-Q                      | 8/9/2004   | 10.72  |                |
| 10.41          | Addendum to Stock Option Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of November 3, 2004.+                     | 10-K                      | 3/25/2005  | 10.39  |                |
| 10.42          | Amendment to Employment Agreement between Borland Software Corporation and Kenneth R. Hahn dated as of May 12, 2005.+                          | 8-K                       | 5/16/2005  | 99.3   |                |



[Table of Contents](#)

| Exhibit Number | Description of Exhibit   | Incorporated by Reference |            |        | Filed Herewith |
|----------------|--|---------------------------|------------|--------|----------------|
|                |  | Form                      | Date       | Number |                |
| 10.43          | Employment Agreement between Borland Software Corporation and Timothy J. Stevens, dated September 17, 2003.+                   | 10-Q                      | 11/14/2003 | 10.5   |                |
| 10.44          | Amendment to Employment Agreement between Borland Software Corporation and Timothy J. Stevens, dated March 4, 2004.+           | 10-K                      | 3/15/2004  | 10.34  |                |
| 10.45          | Addendum to Stock Option Agreement between Borland Software Corporation and Timothy J. Stevens dated as of November 3, 2004.+  | 10-K                      | 3/25/2005  | 10.44  |                |
| 10.46          | Separation and Mutual Release Agreement between the Company and Timothy J. Stevens dated June 16, 2006.+                       | 8-K                       | 6/19/2006  | 10.1   |                |
| 10.47          | Employment Agreement between Borland Software Corporation and Matthew Thompson, dated October 1, 2003.+                        | 10-Q                      | 11/14/2003 | 10.6   |                |
| 10.48          | Separation Agreement and Full and Final Release of Claims between the Company and Matthew Thompson, dated January 5, 2007.+    | 8-K                       | 1/08/2007  | 10.100 |                |
| 10.49          | Employment Agreement between the Company and Tod Nielsen, dated November 1, 2005.+   | 8-K                       | 11/8/2005  | 10.73  |                |
| 10.50          | Form of Addendum to Employment Offer Letters for Severance Benefits for Named Executive Officers.+                             | 10-Q                      | 11/8/2005  | 10.78  |                |
| 10.51          | 2003 Stock Option Agreement for Tod Nielsen under the 2003 Supplemental Stock Option Plan.+                                    | 10-K                      | 5/02/2006  | 10.52  |                |
| 10.52          | Addendum to Stock Option Agreement for Tod Nielsen.+   | 10-K                      | 5/02/2006  | 10.53  |                |
| 10.53          | Stock Issuance Agreement for Tod Nielsen.+   | 10-K                      | 5/02/2006  | 10.54  |                |
| 10.54          | Addendum to Stock Issuance Agreement for Tod Nielsen.+   | 10-K                      | 5/02/2006  | 10.55  |                |
| 10.55          | Amendment to Employment Agreement between the Company and Tod Nielsen effective as of November 1, 2005.+                       | 8-K/A                     | 11/23/2005 | 10.79  |                |
| 10.56          | Employment Offer Letter between the Company and Peter Morowski, dated June 3, 2006.+   | 8-K                       | 8/21/2006  | 10.93  |                |
| 10.57          | Addendum to Employment Offer Letter for Severance Benefits between the Company and Peter Morowski, dated June 3, 2006.+        | 8-K                       | 8/21/2006  | 10.94  |                |
| 10.58          | Employment Offer Letter between the Company and Greg Wrenn, dated September 7, 2006.+  | 8-K                       | 10/19/2006 | 10.96  |                |
| 10.59          | Addendum to Employment Offer Letter for Severance Benefits between the Company and Greg Wrenn, dated September 7, 2006.+       | 8-K                       | 10/19/2006 | 10.97  |                |
| 10.60          | Employment Agreement between the Company and Michael Sullivan, dated July 5, 2006.+  | 8-K                       | 7/6/2006   | 10.88  |                |
| 10.61          | Separation Agreement and Full and Final Release of Claims between the Company and Michael Sullivan, dated September 18, 2006.+ | 8-K                       | 9/22/2006  | 10.95  |                |
| 10.62          | Employment Offer Letter between the Company and Erik Prusch, dated October 2, 2006.+   | 8-K                       | 11/14/2006 | 10.98  |                |
| 10.63          | Addendum to Employment Offer Letter for Severance Benefits between the Company and Erik Prusch, dated October 2, 2006.+        | 8-K                       | 11/14/2006 | 10.99  |                |
| 10.64          | Employment Offer Letter between the Company and David Packer, dated  | 8-K                       | 1/08/2007  | 10.101 |                |

January 4, 2007.+

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[Table of Contents](#)

| Exhibit Number | Description of Exhibit  | Incorporated by Reference |           |        | Filed Herewith |
|----------------|---|---------------------------|-----------|--------|----------------|
|                |   | Form                      | Date      | Number |                |
| 10.65          | Addendum to Employment Offer Letter for Severance Benefits between the Company and David Packer.+   | 8-K                       | 1/08/2007 | 10.102 |                |
| 10.66          | Summary of Board Compensation.+   | 8-K                       | 1/17/2007 | 10.103 |                |
| 10.67          | Lease Agreement by and between Borland Software Corporation and ScanlanKemperBard Companies dated as of February 17, 2000.  | 10-K                      | 3/29/2001 | 10.44  |                |
| 10.68          | First Amendment to Lease Agreement by and between Borland Software Corporation and Enterprise Way Associates, LLC as dated as of September 30, 2000.                  | 10-K                      | 3/29/2001 | 10.45  |                |
| 10.69          | Second Amendment to Lease Agreement by and between Borland Software Corporation and Enterprise Way Associates, LLC as dated as of June 1, 2001.                       | 10-K                      | 3/28/2003 | 10.54  |                |
| 10.70          | Third Amendment to Lease Agreement by and between Borland Software Corporation and Enterprise Way Associates, LLC as dated as of November 1, 2001.                    | 10-K                      | 3/28/2003 | 10.55  |                |
| 10.71          | Office Lease and amendment between Starwood O.C. Portfolio I, L.L.C., and Starbase Corporation.   | 10-K                      | 3/28/2003 | 10.57  |                |
| 10.72          | Lease and amendment between Davis Sandler Three LLC and TogetherSoft Corporation.   | 10-K                      | 3/28/2003 | 10.58  |                |
| 10.73          | Agreement of Purchase and Sale dated May 30, 2006 between Borland Software Corporation and Fowler Property Acquisitions, LLC.   | 8-K                       | 6/5/2006  | 10.1   |                |
| 10.74          | First Amendment to Agreement of Purchase and Sale dated May 30, 2006 between Borland Software Corporation and Fowler Property Acquisitions, LLC, dated June 30, 2006. | 8-K                       | 7/7/2006  | 10.91  |                |
| 10.82          | Amendment to Stock Option Agreement between Borland Software Corporation and Dale L. Fuller, dated February 2, 2005.+   | 10-Q                      | 5/10/2005 | 10.72  |                |
| 10.83          | Visual Studio Partner Master Agreement between Microsoft Corporation and Borland Software Corporation, dated August 11, 2006.   | 10-K                      | 3/15/2007 | 10.97  |                |
| 21.1           | Subsidiaries of Borland Software Corporation.   |                           |           |        | X              |
| 23.1           | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.   |                           |           |        | X              |
| 31.1           | Certification of Tod Nielsen, Chief Executive Officer of Borland Software Corporation, pursuant to Rule 13a-14(a).  |                           |           |        | X              |
| 31.2           | Certification of Erik Prusch, Chief Financial Officer of Borland Software Corporation, pursuant to Rule 13a-14(a).  |                           |           |        | X              |
| 32.1           | Certification of Tod Nielsen, Chief Executive Officer of Borland Software Corporation, pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.++                       |                           |           |        | X              |
| 32.2           | Certification of Erik Prusch, Chief Financial Officer of Borland Software Corporation, pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.++                       |                           |           |        | X              |

+ Management contract or compensatory plan or arrangement.

++ The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Borland Software Corporation under the Securities Act of

[Table of Contents](#)

1933 or the Securities Exchange Act of 1934 whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

A copy of any exhibit will be furnished (at a reasonable cost) to any of our stockholders upon receipt of a written request. Such request should be sent to Borland Software Corporation, 8303 N. MoPac Expressway, Suite A-300, Austin, Texas USA 78759, Attn: Corporate Secretary.



## SUBSIDIARIES OF BORLAND SOFTWARE CORPORATION

| <u>SUBSIDIARY LEGAL NAME</u>                | <u>JURISDICTION OF INCORPORATION</u> |
|---|--------------------------------------|
| Borland Corporation                         | Delaware                             |
| Borland Technology Corporation              | Delaware                             |
| CodeGear LLC                                | Delaware                             |
| Segue Software, Inc.                        | Delaware                             |
| Borland Entwicklung GmbH                    | Austria                              |
| Segue Canada, Inc.                          | Canada                               |
| Segue Software, Ltd.                        | United Kingdom                       |
| Segue Export, Inc.                          | West Indies                          |
| Starbase Corporation                        | Delaware                             |
| TeraQuest Metrics, Inc.                     | Texas                                |
| TeraQuest International, LLC                | Texas                                |
| TogetherSoft Corporation                    | Delaware                             |
| Borland Labs, Inc.                          | Delaware                             |
| Object UK Limited                           | United Kingdom                       |
| Borland Software Czech Republic s.r.o.      | Czech Republic                       |
| Borland (Holding) UK Limited                | United Kingdom                       |
| Borland UK Limited                          | United Kingdom                       |
| Togethersoft (UK) Limited                   | United Kingdom                       |
| Borland Australia Pty Ltd.(1)               | Australia                            |
| Borland Latin America Ltda.(2)              | Brazil                               |
| Advanced Training Center Ltda.              | Brazil                               |
| Borland Canada, Inc.                        | Canada                               |
| Borland Software (Beijing) Co. Ltd.         | China                                |
| Borland s.r.o. Czech(3)                     | Czech Republic                       |
| Borland France SARL(4)                      | France                               |
| Borland GmbH                                | Germany                              |
| Borland Computer Software Vetriebs GmbH     | Germany                              |
| Inprise Solutions GmbH                      | Germany                              |
| Borland (H.K.) Limited(5)                   | Hong Kong                            |
| Borland Software (India) Private Limited(6) | India                                |
| Borland Japan Ltd.                          | Japan                                |
| TogetherSoft Japan KK                       | Japan                                |
| Borland Software de Mexico, S.A. de C.V.(7) | Mexico                               |
| Borland B.V.                                | Netherlands                          |
| Borland Finland Oy                          | Finland                              |
| Borland S.r.l.                              | Italy                                |
| Borland Sweden AB                           | Sweden                               |
| Borland (New Zealand) Limited(8)            | New Zealand                          |
| Borland Russia AO                           | Russia                               |
| Borland (Singapore) Pte Ltd.                | Singapore                            |

(1) 99% interest owned by Borland Software Corporation and 1% interest owned by Borland (New Zealand) Ltd.

(2) 99% interest owned by Borland Software Corporation and 1% interest owned by Borland Corporation

(3) 5% interest owned by Borland Software Corporation

(4) 99% interest owned by Borland Software Corporation and 1% interest owned by Borland Technology Corporation

(5) 99% interest owned by Borland Software Corporation and 1% interest owned by Borland Singapore Pte Ltd.

(6) 98% interest owned by Borland Software Corporation

(7) 99% interest owned by Borland Software Corporation and 1% interest owned by Borland Corporation

(8) 99% interested owned by Borland Software Corporation and 1% interest owned by Borland Australia Pty Ltd.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (333-133782, 333-128385, 333-88760, 333-62118, 333-13707, 333-16313, 333-42809, 333-47175, 333-47177, 333-61315, 333-79249, 333-87987, 333-45078, 333-102688, 333-108505 and 333-143675) and Form S-3 (333-147766) of Borland Software Corporation of our report dated March 7, 2008 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
March 7, 2008



CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Tod Nielsen, certify that:

1. I have reviewed this annual report on Form 10-K of Borland Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2008

/s/ Tod Nielsen  
Tod Nielsen  
President, Chief Executive Officer and Director



CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Erik E. Prusch, certify that:

1. I have reviewed this annual report on Form 10-K of Borland Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7 , 2008

/s/ Erik E. Prusch  
Erik E. Prusch  
Senior Vice President and Chief Financial Officer



**Certification of Chief Executive Officer, Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Borland Software Corporation (the “Company”) for the period ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Tod Nielsen, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

/s/ Tod Nielsen

Tod Nielsen

Chief Executive Officer

March 7, 2008

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. This certification is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.



**Certification of Chief Financial Officer, Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Borland Software Corporation (the “Company”) for the period ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Erik E. Prusch, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

/s/ Erik E. Prusch

Erik E. Prusch  
Chief Financial Officer  
March 7, 2008

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. This certification is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

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