ART TECHNOLOGY GROUP INC
Form 10-Q
May 07, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission file number 000-26679

ART TECHNOLOGY GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**04-3141918**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

One Main Street, Cambridge, Massachusetts
(Address of principal executive offices)
02142
(Zip Code)
(617) 386-1000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of May 1, 2010 there were 157,012,768 shares of the Registrant s common stock outstanding.

ART TECHNOLOGY GROUP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ART TECHNOLOGY GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(UNAUDITED)

	March 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 60,249	$ 57,319
Marketable securities (including restricted cash of $50 at March 31, 2010 and December 31, 2009)	78,454	21,775
Accounts receivable (net of reserves of $581 and $1,060 at March 31, 2010 and December 31, 2009, respectively)	36,385	41,522
Deferred costs, current	1,216	767
Deferred tax asset	430	430
Prepaid expenses and other current assets	4,934	3,359
Total current assets	181,668	125,172
Property and equipment, net	11,347	9,934
Deferred costs, less current portion	2,025	1,387
Marketable securities (including restricted cash of $738 at March 31, 2010 and December 31, 2009)	30,412	6,439
Deferred tax asset, less current portion	450	450
Other assets	1,944	907
Intangible assets, net	9,600	4,064
Goodwill	77,555	65,683
Total Assets	$ 315,001	$ 214,036
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 3,477	$ 5,720
Accrued expenses	17,134	18,873
Deferred revenue, current portion	42,661	42,640
Total current liabilities	63,272	67,233
Deferred revenue, less current portion	15,659	10,356
Other liabilities	1,527	536
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, $0.01 par value; authorized - 10,000,000 shares; issued and outstanding-no shares		
Common stock, $0.01 par value; authorized - 200,000,000 shares; 163,552,314 shares and 134,117,921 shares issued, respectively; and	1,636	1,341

156,862,219 shares and 127,427,826 shares outstanding, respectively at March 31, 2010 and December 31, 2009		
Additional paid-in capital	423,747	326,925
Accumulated deficit	(173,091)	(175,150)
Treasury stock, at cost (6,690,095 shares at March 31, 2010 and December 31, 2009)	(16,075)	(16,075)
Accumulated other comprehensive loss	(1,674)	(1,130)
Total stockholders equity	234,543	135,911
Total Liabilities and Stockholders Equity	$ 315,001	$ 214,036

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

ART TECHNOLOGY GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(UNAUDITED)

	Three Months Ended March 31,	
	2010	**2009**
Revenue:		
Product licenses	$ 12,857	$ 12,930
Recurring services	26,670	23,103
Professional and education services	5,197	5,878
Total revenue	44,724	41,911
Cost of Revenue:		
Product licenses	534	390
Recurring services	9,716	8,897
Professional and education services	4,840	5,302
Total cost of revenue	15,090	14,589
Gross Profit	29,634	27,322
Operating Expenses:		
Research and development	8,661	7,470
Sales and marketing	14,429	12,288
General and administrative	5,125	4,489
Total operating expenses	28,215	24,247
Income from operations	1,419	3,075
Interest and other income (expense), net	(221)	211
Income before income taxes	1,198	3,286
Provision (benefit) for income taxes	(861)	312
Net income	$ 2,059	$ 2,974
Basic net income per share	$ 0.01	$ 0.02

Diluted net income per share	$ 0.01	$ 0.02
Basic weighted average common shares outstanding	146,157	126,113
Diluted weighted average common shares outstanding	154,514	129,368

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

ART TECHNOLOGY GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net income	$ 2,059	$ 2,974
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,764	2,263
Stock-based compensation expense	2,361	1,955
Amortization of investment premiums	308	
Non-cash deferred tax benefit	(1,073)	
Net changes in current assets and liabilities:		
Accounts receivable	6,094	4,527
Prepaid expenses and other current assets	(1,396)	319
Deferred costs	(1,086)	234
Accounts payable	(2,593)	1,345
Accrued expenses and other liabilities	(2,081)	(3,381)
Deferred revenue	4,192	(1,999)
Accrued restructuring		(146)
Net cash provided by operating activities	9,549	8,091
Cash Flows from Investing Activities:		
Purchases of marketable securities	(84,018)	(1,929)
Maturities of marketable securities	2,968	5,243
Purchases of property and equipment	(2,342)	(1,329)
Increase in other assets	(1,000)	
Acquisition of business, net of cash acquired	(15,140)	
Net cash provided by (used in) investing activities	(99,532)	1,985
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	476	149
Proceeds from employee stock purchase plan	298	242
Net proceeds from equity offering	94,968	
Repayment of acquired debt	(1,573)	
Payments of employee restricted stock tax withholdings	(990)	(383)
Net cash provided by financing activities	93,179	8
Effect of foreign exchange rate changes on cash and cash equivalents	(266)	(276)

Net increase in cash and cash equivalents	2,930	9,808
Cash and cash equivalents, beginning of period	57,319	47,413
Cash and cash equivalents, end of period	$ 60,249	$ 57,221

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

ART TECHNOLOGY GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization, Business and Summary of Significant Accounting Policies

Art Technology Group, Inc. (ATG or the Company) develops and markets a comprehensive suite of e-commerce software products, and provides related services including support and maintenance, education, application hosting, professional services and eStara Optimization service solutions for enhancing online sales and support.

(a) Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by United States generally accepted accounting principles, and while the Company believes that the disclosures presented are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2009 Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited condensed consolidated financial statements and notes contain all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the Company s financial position, results of operations, and cash flows at the dates and for the periods indicated. The operating results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

The accompanying consolidated financial statements include the accounts of ATG and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 the reported amounts of revenues and expenses during the reporting period. Such estimates relate to revenue recognition, the allowance for doubtful accounts, useful lives of fixed assets and identifiable intangible assets, deferred costs, software development costs, accrued liabilities, accrued taxes, deferred tax valuation allowances, and assumptions pertaining to share-based payments. Actual results could differ from those estimates.

(c) Accounts Receivable

Accounts receivable represents amounts currently due from customers. Accounts receivable also include $4.4 million and $2.5 million of unbilled accounts receivable at March 31, 2010 and December 31, 2009, respectively. Unbilled accounts receivable consist of future billings related to transactions with extended payment terms, as well as future billings for professional services performed but not yet invoiced to the customer. Unbilled accounts receivable related to professional services are generally invoiced the following month.

ATG records bad debt allowances for accounts receivable based upon a specific review of all outstanding invoices and unbilled accounts receivable, known collection issues, and historical experience. ATG also records a provision for estimated allowances on professional service fees and hosting fees in the same period the related revenues are recorded as a reduction to revenue. These estimates are based on historical allowances, analysis of credit memo data, and other known factors and are generally recorded as a reduction in revenue.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(d) Revenue Recognition

ATG derives revenue from the following sources: (1) perpetual software licenses, (2) recurring services, which are comprised of support and maintenance services, application hosting services and Optimization services, and (3) professional and education services. ATG sells certain of these product and service offerings individually or more commonly in multiple element arrangements under various arrangements as follows: 1. Sale of Perpetual Software Licenses and Professional and Education Services, 2. Sale of Application Hosting Services, and 3. Sale of Optimization Services.

The Company recognizes revenue in accordance with FASB ASC 985-605, *Software Revenue Recognition*, formerly known as AICPA Statement of Position 97-2, *Software Revenue Recognition (SOP 97-2)*, or Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition (SAB 104),* applying the provisions of FASB ASC 605-25, *Multiple Element Arrangements,* formerly known as Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables (EITF 00-21),* depending on the nature of the arrangement.

Revenue is recognized only when persuasive evidence of an arrangement exists, the fee is fixed or determinable, the product or service has been delivered, and collectability of the resulting receivable is probable. ATG makes significant judgments when evaluating if fees are fixed or determinable and in assessing the customer s ability to pay for the products or services provided. This judgment is based on a combination of factors, including the contractual terms of the arrangement, completion of a credit check or financial review, payment history with the customer, and other forms of payment assurance. Upon the completion of these steps and provided all other revenue recognition criteria are met, ATG recognizes revenue consistent with its revenue recognition policies provided below.

ATG s standard payment terms are normally within 90 days. The Company in some circumstances provides extended payment terms, and in certain cases considers amounts payable beyond 90 days but less than 12 months to be fixed or determinable. In such cases, judgment is required in evaluating the creditworthiness of the customer and the likelihood of a concession. The Company monitors its ability to collect amounts due under the stated contractual terms of such arrangements and to date has not experienced any concessions to this class of customer. If in the future the Company experiences adverse changes in its ability to collect without concession the amounts due under arrangements involving extended payment terms to this class of customer, it may no longer be able to conclude that such amounts are fixed or determinable and probable of collection, which could adversely affect the Company s revenue in future periods.

1. Sales of Perpetual Software Licenses and Professional and Education Services

ATG licenses software under perpetual license agreements and applies the provisions of ASC 985-605, *Software Revenue Recognition.* In accordance with ASC 985-605, revenue from software license agreements is recognized when the following criteria are met: (1) execution of a legally binding license agreement, (2) delivery of the software, which is generally through electronic license keys for the software, (3) the fee is fixed or determinable, as determined by the Company s payment terms, and free of contingencies or significant uncertainties as to payment, and (4) collection is deemed probable by management based on a credit evaluation of the customer. In addition, under multiple element arrangements, to recognize software license revenue up-front, the Company must have vendor specific objective evidence (VSOE) of fair value of the undelivered elements in the transaction. Substantially all of the Company s software license arrangements do not include acceptance provisions. However, if conditions for acceptance subsequent to delivery are required, revenue is recognized upon customer acceptance if such acceptance is not deemed to be perfunctory.

In connection with the sale of its software licenses, ATG sells support and maintenance services, which are recognized ratably over the term of the arrangement, typically one year. Under support and maintenance services, customers receive unspecified software product upgrades, maintenance and patch releases during the term, and internet and telephone access to technical support personnel. Support and maintenance is priced as a percent of the net software license fee and is based on the contracted level of support.

Many of the Company s software arrangements also include professional services for consulting implementation services sold separately under separate agreements. Professional services revenue from these arrangements is generally accounted for separately from the software license because the services qualify as a separate element

ART TECHNOLOGY GROUP, INC.
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under ASC 985-605, *Software Revenue Recognition*. The more significant factors considered in determining whether professional services revenue should be accounted for separately include the nature of services (i.e. consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments, and impact of milestones or acceptance criteria on the realizability of the software license fee. Professional services revenue under these arrangements is generally recognized as the services are performed on a time and materials basis.

Education revenue, which is recognized as the training is provided to customers, is derived from instructor led training classes either at ATG or onsite at the customer location.

For software arrangements with multiple elements, the Company applies the residual method in accordance with ASC 985-605. The residual method requires that the portion of the total arrangement fee attributable to the undelivered elements be deferred based on its VSOE of fair value and subsequently recognized as the service is delivered. The difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements, which is generally the software license. VSOE of fair value for all elements in an arrangement is based upon the normal pricing for those products and services when sold separately. The Company has established VSOE of fair value for support and maintenance services, professional services, and education. The Company has not established VSOE for its software licenses, application hosting services or Optimization services. In arrangements that do not include application hosting services or Optimization services, product license revenue is generally recognized upon delivery of the software products.

2. Sales of Application Hosting Services

ATG derives revenue from application hosting services either from hosting ATG perpetual software licenses purchased by the customer or by providing the software as a service solution to the customer in an arrangement in which the customer does not have the rights to the software license itself but can use the software for the contracted term. In both situations, ATG recognizes application hosting revenue in accordance with ASC 985-605, *Software Revenue Recognition*, ASC 605-10, *Revenue Recognition*, and ASC 605-25, *Multiple Element Arrangements*.

In accordance with ASC 985-605, these arrangements are generally within the scope of ASC 605-10, and the Company therefore applies the provisions of ASC 605-10 and ASC 605-25, and accounts for the arrangement as a service contract. Pursuant to ASC 605-25, all elements of the arrangement are considered to be one unit of accounting. The elements in these arrangements generally include set-up and implementation services, support and maintenance services, the monthly hosting service and in certain instances a perpetual software license. All fees received up-front under these arrangements, regardless of the nature of the element, are deferred until the application hosting service commences, which is referred to as the site-delivered date. Upon site-delivered, the up-front fees and hosting service fees are recognized ratably over the hosting period or estimated life of the customer arrangement, whichever is longer. ATG currently estimates the life of the customer arrangement to be four years.

3. Sales of Optimization Services

ATG derives revenue from Optimization services, which are hosted services providing ATG s customers with click-to-call, click-to-chat and recommendations services. Optimization services are site-independent and are not required to be used in conjunction with ATG s software products. These services are a stand-alone independent service solution, which are typically contracted for a one-year term. The Company recognizes revenue on a monthly basis as the services are provided. Fees are generally based on monthly minimums and transaction volumes. In certain instances Optimization services are bundled with ATG software arrangements, which typically include perpetual software licenses, support and maintenance services and professional services for the perpetual software license. In these situations the Company accounts for the arrangements in accordance with ASC 985-605. The Company does not have VSOE of fair value for Optimization services, as such the up-front fees received under the arrangement regardless of the nature of the element are deferred and recognized ratably over the period of providing the Optimization services, provided that the professional services, if applicable, have commenced.

In certain instances, the Company sells perpetual software licenses with application hosting services and Optimization services. In these situations the Company accounts for the arrangements in accordance with ASC

605-10. All elements in the arrangement for which the Company receives up-front fees are recognized as revenue ratably over the period of providing the related service or estimated life of the customer arrangement, whichever is longer.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company allocates and classifies revenue in its statement of operations based on its evaluation of VSOE of fair value, or an estimate of fair value when VSOE has not been established, available for each applicable element of the transaction: professional services, support and maintenance services, application hosting services, and/or Optimization services. ATG uses the residual method to determine the amount of revenue to allocate to product license revenue. The fee for each element is recognized ratably, and as such, a portion of software license revenue recorded in the statement of operations is from these ratably recognized arrangements.

(e) Comprehensive Income

Accounting guidance requires financial statements to include the reporting of comprehensive income, which includes net income and certain transactions that have generally been reported in the statement of stockholders equity. ATG s comprehensive income consists of net income, foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities.

The components of accumulated other comprehensive income are as follows:

	March 31, 2010	March 31, 2009
	(in thousands)	
Net income	$2,059	$2,974
Net changes in:		
Foreign currency translation adjustment	(415)	(312)
Unrealized gain (loss) on available-for-sale securities	(129)	51
Total comprehensive income	$1,515	$2,713

(f) Concentrations of Credit Risk and Major Customers

Financial instruments that potentially subject ATG to concentrations of credit risk consist principally of marketable securities and accounts receivable. ATG maintains cash, cash equivalents and marketable securities with durations of twenty-three months or less.

The Company sells its products and services to customers in a variety of industries, including consumer retail, financial services, manufacturing, communications and technology, travel, and media and entertainment. The Company has credit policies and standards and routinely assesses the financial strength of its customers through continuing credit evaluations. The Company generally does not require collateral or letters of credit from its customers.

At March 31, 2010 and December 31, 2009, no customer accounted for more than 10% of accounts receivable. No single customer accounted for more than 10% of total revenues during the three months ended March 31, 2010 and 2009.

(g) New Accounting Pronouncements

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009-13 *Multiple Element Arrangements.* ASU 2009-13 addresses the determination of when the individual deliverables included in a multiple arrangement may be treated as separate units of accounting. ASU 2009-13 also modifies the manner in which the transaction consideration is allocated across separately identified deliverables and establishes definitions for determining fair value of elements in an arrangement. This standard must be adopted by the Company no later than January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact, if any, that this standard update will have on its consolidated financial statements.

ART TECHNOLOGY GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In February 2010, the FASB issued ASU *2010-09 Subsequent Events.* ASU 2010-09 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of ASU 2010-09 had no impact on the Company s financial condition or results of operations.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements*, which amends ASC 820-10, *Fair Value Measurements and Disclosures*. ASU 2010-06 requires additional disclosures for transfers in and out of Levels 1 and 2 fair value classifications and for activity in Level 3 and clarifies certain other existing disclosure requirements. It also clarifies existing fair value disclosures regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value. The Company adopted ASU 2010-06 beginning January 15, 2010. This adoption had no impact on the Company s financial position, results of operations or cash flows.

(2) Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding plus the dilutive effect of common stock equivalents using the treasury stock method. Common stock equivalents consist of stock options, restricted stock and restricted stock unit awards. The assumed proceeds under the treasury stock method include the average unrecognized compensation expense of dilutive stock options and restricted stock awards. This results in the assumed buyback of additional shares thereby reducing the dilutive impact of stock options and restricted stock awards.

The following table sets forth the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2010	**2009**
Net income	$ 2,059	$ 2,974
Weighted average common shares outstanding used in computing basic net income per share	146,157	126,113
Dilutive employee common stock equivalents	8,357	3,255
Total weighted average common stock and common stock equivalent shares outstanding used in computing diluted net income per share	154,514	129,368
Basic net income per share	$ 0.01	$ 0.02
Diluted net income per share	$ 0.01	$ 0.02
Anti-dilutive common stock equivalents	11,083	14,400

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ART TECHNOLOGY GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(3) Stock-Based Compensation

Grant-Date Fair Value of Stock Options

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of stock options. Information pertaining to stock options granted during the three months ended March 31, 2010 and 2009 and related weighted average assumptions is as follows:

	Three Months Ended March 31,	
Stock Options	**2010**	**2009**
Options granted (in thousands)	1,184	614
Weighted-average exercise price	$ 4.53	$ 2.16
Weighted-average grant date fair value	$ 2.86	$ 1.40
Assumptions:		
Expected volatility	67%	71%
Expected term (in years)	6.25	6.25
Risk-free interest rate	2.85%	1.98%
Expected dividend yield		

Expected volatility The Company has determined that the historical volatility of its common stock is the best indicator of the future volatility of its common stock, and therefore uses historical volatility to estimate the grant-date fair value of stock options. Historical volatility is calculated for the period that is commensurate with the stock option s expected term.

Expected term The expected term of an option is based on the historical experience for the population of option holders.

Risk-free interest rate The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term is used as the risk-free interest rate.

Expected dividend yield The Company s Board of Directors historically has not declared cash dividends and does not expect to issue cash dividends in the future.

The Company uses the straight-line attribution method to recognize stock-based compensation expense for stock options. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Expected forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered option. The Company has applied a forfeiture rate of 9% to all unvested options as of March 31, 2010. This analysis is re-evaluated periodically and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

ART TECHNOLOGY GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Award Activity

A summary of the activity under the Company s stock option plans as of March 31, 2010 and changes during the three-month period then ended is presented below:

	Number of Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2009	13,003	$2.83		
Options granted	1,184	4.53		
Options exercised	(203)	2.35		
Options forfeited	(119)	6.24		
Options outstanding at March 31, 2010	13,865	2.95	5.8	$ 28,279
Options exercisable at March 31, 2010	10,347	2.68	4.8	25,779
Options vested or expected to vest at March 31, 2010 [1]	13,393	2.92	5.7	28,022

[1] In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest are calculated by applying an estimated forfeiture rate to the unvested options.

During the three months ended March 31, 2010 and 2009, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was $0.4 million and $0.1 million, respectively, and the total amount of cash received by the Company from exercise of these options was $0.5 million and $0.1 million, respectively.

Restricted Stock Awards

A summary of the Company s restricted stock and restricted stock unit (RSU) award activity for the three months ended March 31, 2010 is presented below:

	Restricted Stock and RSUs (in thousands)	Weighted Average Grant Date Fair Value Per Share
Non-vested shares outstanding at December 31, 2009	5,446	$ 2.89
Awards granted	1,336	4.12
Restrictions lapsed	(645)	2.95
Awards forfeited	(96)	2.92
Non-vested shares outstanding at March 31, 2010	6,041	3.14

During the three months ended March 31, 2010, the Company granted 1.3 million RSUs to employees. The fair value of the RSUs is based on the market value of ATG s common stock price on the date of grant. Stock-based compensation expense related to RSUs is recognized on a straight-line basis over the requisite service period provided there are no performance-based measures. The Company has applied a forfeiture rate of 18% to its RSUs as of March 31, 2010. The RSUs provide the holder with the right to receive shares of ATG common stock upon vesting.

RSUs granted to employees generally vest over four years. A majority of the RSUs vest based on the lapsing of time. A portion of the RSUs granted to executives are subject to performance criteria. Of the RSUs outstanding at March 31, 2010 1.3 million were performance-based. The fair value of these performance based awards is being recognized over the requisite service period under the accelerated method. The performance-based RSUs granted in 2009, 2008, and 2007 contain an additional condition which, if achieved, would result in the immediate vesting of the awards. At March 31, 2010, the achievement of this additional condition is not deemed probable by the Company.

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As of March 31, 2010, there was $21.3 million of total unrecognized compensation cost related to unvested awards of stock options and RSUs. That cost is expected to be recognized over a weighted-average period of 2.3 years.

The Company recorded $2.4 million and $2.0 million in total stock-based compensation expense for stock options and restricted stock awards for the three months ended March 31, 2010 and 2009, respectively.

(4) Disclosures About Segments of an Enterprise

Operating segments are components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions on how to allocate resources and assess performance. The Company s chief operating decision-maker is its Chief Executive Officer. ATG views its operations and manages its business as one segment with three product offerings: software licenses, recurring services, and professional and education services. ATG evaluates these product offerings based on their respective revenues and gross margins. As a result, the financial information disclosed in the consolidated financial statements represents the material financial information related to our principal operating segment.

Revenues from foreign sources were approximately $11.6 million and $13.6 million for the three months ended March 31, 2010 and 2009, respectively. Revenues from foreign sources were primarily generated from customers located in Europe and the Asia/Pacific region. All of the Company s product sales for the three months ended March 31, 2010 and 2009, were delivered from ATG s headquarters located in the United States.

The following table represents the percentage of total revenue by geographic region for the three months ended March 31, 2010 and March 31, 2009:

	Three months ended March 31,	
	2010	**2009**
United States	74%	66%
United Kingdom (UK)	10%	25%
Europe, Middle East and Africa (excluding UK)	10%	8%
Other	6%	1%
	100%	100%

(5) Fair Value Measurement

As defined in ASC 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets and liabilities or market corroborated inputs.

Level 3: Unobservable inputs are used when little or no market data is available, which requires the Company to develop its own assumptions about how market participants would value the assets or liabilities. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

The following table presents the Company s financial assets that are measured at fair value on a recurring basis at March 31, 2010: