

ARTEMIS INTERNATIONAL SOLUTIONS CORP
Form 10-K
March 30, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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

Commission file number 000-29793

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

13-4023714
(I.R.S. Employer Identification Number)

4041 MacArthur Boulevard, Suite 401, Newport Beach, CA 92660
(Address of principal executive offices, including zip code)

(949) 660-6500
(Registrant's telephone, including area code)

Securities registered pursuant to Section 12(b) of the Act: **NONE**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$.001 par value**

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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 the 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's outstanding common stock held by non-affiliates of the Registrant on June 30, 2004 was approximately \$4.6 million. There were 10,537,898 shares of common stock outstanding as of March 11, 2005.

ARTEMIS INTERNATIONAL SOLUTIONS CORP.

Annual Report on Form 10-K

For the Year Ended December 31, 2004

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This Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Actual events and results could differ materially from those anticipated in these forward-looking statements as a result of certain factors. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Safe Harbor Statement.

PART I

Item 1. Business.

Artemis International Solutions Corporation, a Delaware Corporation, including its subsidiaries (Artemis , We , or the Company), is one of the world's leading providers of Investment Planning and Control™ (IP & C) software and services. Since 1976, we have been helping organizations improve their performance through portfolio, project and resource management.

We provide a comprehensive set of Investment Planning and Control solutions designed to help organizations execute their strategies through effective project portfolio management. These solutions combine our flagship product Artemis 7 with verticalized solutions-oriented consulting services to address the needs of both private and public sector organizations in the areas of:

Information Technology (IT) Management and Governance

New Product Development and Launch

Strategic Asset Optimization

Aerospace and Defense Program Management

Public Investment Management

Our Investment Planning and Control solutions cover the full investment lifecycle, from selection and prioritization based on strategy and operational goals, to reiterative budgeting and resource allocation, to project execution and performance measurement, including value and benefit assessment. Our customers rely on us to provide them with a solution to better manage their IT investments, develop new products such as pharmaceuticals, promote business efficiency through better alignment and allocation of resources in governmental agencies, maintain nuclear power stations, and manage defense programs.

The solutions are deployed in a phased approach using SM², the Artemis Solution Management Methodology™ designed to accelerate return on investment (ROI) and minimize implementation risks.

More than 400 companies representing 600,000 users in 44 different countries have licensed Artemis solutions in a broad range of industries, including: Chicago Mercantile Exchange, Exelon Energy, AMI Semiconductor, Nokia, France Telecom, Lockheed Martin, Telecom Italia,

Toshiba, MoneyGram and USAA.

Our corporate offices are located at 4041 MacArthur Boulevard, Suite 401, Newport Beach, CA 92660 and our telephone number at that address is (949) 660-6500.

Industry Overview

Private and public sector organizations are under growing pressure to deliver more with less, and improve the alignment of their investments with evolving objectives in an increasingly competitive market characterized by tighter margins, shorter product lifecycles, economic and political uncertainty, and more stringent regulatory controls and compliance criteria.

Across all industry sectors, 2004 has confirmed the urgent need to improve the processes for selecting, budgeting, prioritizing and executing investments in order to optimize corporate resources, improve business performance and ensure visibility throughout the process.

Similar issues exist in all areas of the business including IT, Research and Development and Asset Lifecycle Management:

Increasing visibility and alignment of the investment portfolio with evolving business strategy

Making objective, value-based investment selections

Maintaining agility in the allocation of funds and resources to reflect changing priorities

Aligning investment planning and execution to ensure business benefits achievement and value delivery

Minimizing unnecessary costs by early identification of investments that bring insufficient value

Enabling effective governance over both strategy and execution

Ensuring regulatory compliance through standard methods and processes

These requirements make Portfolio and Value Management one of the most powerful combinations for improved business performance.

Within IT organizations according to the META GROUP, Portfolio Management (PfM) has become the premier IT/business communication tool for optimizing IT investment. Through 2007, more than 70% of firms will combine IT portfolio management, IT value management, enterprise architecture and business relationship management as critical integrated IT organizational practices. Similar trends are reported by the Gartner Group.

Within R&D organizations according to AMR Research, only 31% of companies surveyed acknowledged having strategic and financial control over their investments in new product development and launch. Others have been advised to implement portfolio management to ensure the most important projects in the pipeline are properly resourced and executed. Gartner Group similarly forecasts that from 2004 to 2010, global 1000 manufacturers will increase their investment in portfolio management by a factor of 10 to improve research and development (R&D) performance (60% probability).

Most organizations have been trying to solve the above issues using in-house tools, desktop software and point solutions, without being able to leverage the benefits associated with a comprehensive and dynamic view of the investment portfolio through its full life-cycle, and involving all stakeholders throughout the organization.

Our Solutions

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Our solutions help translate strategy into measurable results by providing a permanent, comprehensive view of the investment portfolio, agility to respond to change, detailed performance analysis, support for rapid objective decision making, and timely communication to stakeholders.

They incorporate a fully integrated set of top-down and bottom-up processes enabling all stakeholders to concentrate on the key business decisions related to their investments and projects without getting caught-up in the details: from selection and prioritization based on strategy and operational goals, to reiterative budgeting and resource allocation, to project execution and performance measurement, including value and benefit assessment.

Our solutions are designed to deliver value throughout the full investment life-cycle to all stake-holders: Chief Information Officer, CFO, R&D managers, line of business managers, project and resources managers, knowledge workers, customers and partners. Unlike other systems, our solutions are completely integrated to offer a real connection between the different processes including demand management, portfolio and budgeting management, execution management, benefit measurement and delivery control.

The web-based software underlying our solutions is accessible through any browser, and is scalable for tens of thousands of users. Multiple language and currency support ensures seamless integration, consolidation and analysis of all investments for our global customers.

Strategy

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Our strategy is to become the leading provider of Investment Planning and Control solutions for large private and public sector organizations.

Our plan includes the following key components:

Continue to show leadership in functionality not only in IT Management but in other investment intensive businesses areas such as R&D or strategic asset management.

Increase the leverage created by our extensive international presence to improve our sales in growing and emerging regions

Add more strategic partnerships to increase our access to the market and the value delivered to customers

Cultivate customer intimacy to enhance implementation service quality and build more industry best practices into our solutions

Products

Artemis 7, the software product underlying our Investment Planning and Control solutions, was first introduced in December 2001 under the name Portfolio Director. Version 6.0 was released in November 2004, extending the capabilities of the previous version by adding:

Performance-based budgeting capabilities

Microsoft Excel reporting using leading edge web-based technology

Bi-directional interface with Microsoft Project®

Full bottom-up cost and benefits consolidation

The Company expects to release Artemis 7, version 6.1 in June/July 2005 further extending the capabilities by adding:

Work-flow driven idea and request management

Advanced Planning and Scheduling as an alternative to Microsoft Project usage

Improved time reporting features

Support of IBM DB2 Universal Database

Artemis 7 incorporates a fully integrated set of top-down and bottom-up collaborative processes:

Investment Portfolio Management

Collect demands

Define, classify, prioritize investments

Model and simulate alternative investment strategies

Record investment risks and issues

Regularly review investment performance and communicate status to stakeholders

Performance Based Budgeting

Financial management of multi-year investments

Dynamic linkage of budgets to strategy

Manage fund requests, arbitration and allocation process

Maintain visibility of budgeting and resource allocation decisions

Manage full cost of investments

Execution Management

Manage projects and work

Allocate and optimize resources

Manage deliverables

Track time

Manage risk and issues

Assess results

This integrated set of processes is supported by horizontal capabilities :

Dashboards & Analytics

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A comprehensive set of standard dashboards and unlimited analytical capabilities on investment portfolio management, budget and cost control, benefit measurements, resource usage and project management.

In addition to multiple scorecards and other on-line key performance indicators, the product offers sophisticated web-based integration with Microsoft Excel. An unlimited number of Excel based reports can be created through pre-defined templates and fully integrated in each user environment while respecting data security requirements. The software also facilitates use of other third party Business Intelligence tools by providing access to a set of ready to use reporting data tables.

Work Flow Management

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The product uses investment and project management methodology templates to provide integrated workflow control and stage gate capabilities. These governance templates contain the steps, milestones and stakeholders involved in the lifecycle approval and funding process for each investment or project including review, approval and authorization steps. The application uses workflows to prompt identified stakeholders to formally review and approve different milestones and stages throughout the lifecycle of investments, programs and projects.

Triggers can send alerts within the Artemis 7 platform or via email to defined investment project stakeholders, providing instant notification of critical issues for review and approval.

Collaboration

The product provides a comprehensive collaborative capability, allowing stakeholders and contributors to store and share information. The integrated document management capability allows documents and data to be linked directly to the target investment, project or work items, while the discussion area provides an informal process for threaded comments and

notes. Risks are more easily monitored and controlled through the shared Risks and Issues Register. Users may subscribe to specific documents receiving updates through email and home page alerting.

Integration Management

Artemis 7 is an extensible solution, allowing integration with existing systems and the capacity to extend standard system functionality through Custom Plug-ins, Application Program Interface (API) and Extensible Markup Language (XML) capabilities.

Artemis 7 allows configurable access levels based on role and rights granted that allow users to access the various processes and features of the solution based on their individual needs. This approach by process favors phased implementations, allowing the organization to start with a 25 user system initially focused on portfolio and budget optimization, then expanding to ten of thousands of users leveraging all the business processes supported by the solution.

Artemis Views, a web and client server product designed to manage project based work in organizations with well-established project management practices, comprises a series of core modules including: Project Management, Advanced Planning and Resourcing, Earned Value Management, Time Reporting, and Project Analytics.

Technology and Architecture

The technology underlying our solutions offers a highly scalable and configurable environment on a web-based architecture designed to support distributed environments.

Multi-Platform

Built in J2EE (the most established Java programming language), the application supports the majority of popular platforms and environments, allowing organizations to leverage their existing investment in deployed technologies.

Security

Role based access security ensures that authorized users are presented with an intuitive, easy to navigate interface that provides only the information appropriate to their role.

Internationalization

Designed for global deployment using multiple currencies, the application provides multi-language support including DBCS (Double Byte Character Set) and is available today in English, French, German, Spanish, Italian, Russian, Dutch, Japanese, Chinese and Korean.

Integration

Artemis 7 is a fully extensible solution, allowing integration with existing systems and the capacity to extend standard system functionality. Custom Plug-ins enable event driven extensions, while our API provides for more complex integrations and extensions. In addition, the application provides a complete XML schematic to aid custom data transfer.

Expansion and Strategic Alliances

From a sales perspective, Artemis will seek to continue to consolidate its leadership throughout Europe and Japan, while increasing sales in North America. Artemis has established a program for growth in the Japanese market, and will selectively extend its presence in emerging markets such as China and Australia. To support our growth within specific industry market segments, we have established strategic alliances with a number of specialized consulting companies and system integrators. These include, BearingPoint, IBM Global Services, Unilog, Fujitsu Consulting, DMR Conseil (Quebec). Our technology focused alliances include companies such as IBM Corporation, Oracle Corporation, Microsoft Corporation, Cognos, BEA Systems, Citrix Systems and Sun Microsystems.

Selling and Marketing

We market our solutions through our own direct sales organizations in the United States, the United Kingdom, France, Finland, Germany, Italy, Japan and Singapore. Additionally, our joint venture and distributor network provides sales and service capabilities in other European countries, Australia, Asia Pacific and Latin America.

We also support our growth within specific markets through consulting partnerships that enhance our total offering by providing an integrated solution deployment and systems integration capability

Our overall marketing strategy is to continue to position our Investment Planning and Control offering as the leading solution in the market. An IP&C solution that provides a management framework for the optimization of the complete set of investments of a given organization during their full lifecycle, from value assessment to benefit realization.

Customers

Artemis provides mission-critical software solutions to hundreds of organizations worldwide. The below list demonstrates the diverse geographical and industry coverage we have recently established with our solutions.

Financial Services: AIG Insurance, Allianz-AGF, AXA Life Insurance, BNP Paribas, Casino, Chicago Mercantile Exchange, Crédit Agricole, Crédit Lyonnais, La Poste, Traveler's Express, USAA, Promina Group Insurance.

Manufacturing: Actelion Pharmaceutical Ltd, AMI Semiconductor, Cummins, Hitachi, McData Corporation, Olympus Corporation, Philips Medical Systems, Sara lee Branded Apparel, Sony Corporation, Trigem Computers, Unomedical.

Public Sector: Bordeaux District Council, Brisbane City Council, UK Metropolitan Police, French UNEDIC, UK Regional Development Agencies, Singapore Immigration & Checkpoint Authority, Italian Ministry of Economy & Finance.

Telecommunications: China Telecom Shanghai, France Telecom, Wind Spa, Indonesia PT Telecom, Nokia Corporation, Telecom Italia, Telenor, T-Systems, Vodafone.

Energy : Exelon Nuclear, Exelon Energy Delivery, GE Oil & Gas, Osaka Gas, Total.

Aerospace & Defense Program : Alcatel Space, BAE Systems, Bath Iron Works, Eurofighter, Lockheed Martin Space Systems.

To date, more than 400 companies representing 600,000 users have licensed our software solutions.

Intellectual Property

Our proprietary products are not protected by patents. However, to protect our intellectual property rights, we license our software products and require our customers to enter into license agreements that impose restrictions on their ability to utilize the software or transfer it to other users. Additionally, we seek to avoid disclosure of our trade secrets through a number of means, including, but not limited to, requiring those persons with access to our proprietary information to execute confidentiality agreements with us and restricting access to our source code. In addition, we protect our software, documentation, templates and other written materials under trademark, trade secret and copyright laws. Even with all of these efforts, there can be no assurance that such precautions will provide meaningful protection from competition or that competitors will not independently be able to develop similar technology. If, in the future, litigation is necessary to enforce our intellectual property rights, to protect our trade secrets, and/or to determine the validity and scope of the proprietary rights of others, such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results and/or financial condition. As a result, we may be unable, for financial or other reasons, to enforce our rights under the various intellectual property laws as described above.

In addition, the laws of certain foreign countries (particularly in Asia) in which our products are or may be licensed may not protect our products and intellectual property rights to the same extent as laws of the United States. Patent protection within the World Trade Organization appears to permit substantial discretion to member countries. A notable example is China's voidance of Pfizer's Viagra patent, which was awarded by that country in September 2001.

We believe that our products do not infringe upon any valid existing proprietary rights of third parties.

Competition

With demonstrated market growth in the Project Portfolio Management software space, we expect positive trends for the application software market in general. We also expect the intensity of existing competition to increase, particularly in the US and the UK.

We believe other parts of the world, such as Japan and Continental Europe, to be more sheltered from competitive pressure due to our long established presence, understanding of local market needs, and existing partnerships.

Our products compete with a variety of business application software and with in-house developments based on Microsoft Office developments or other programming languages.

Competition comes mainly from pure project portfolio software vendors, IT Management suites and some Enterprise Resource Planning (ERP) modules that can initially appear attractive to customers who have implemented the ERPs for other business processes.

Competition varies according to the different markets we address with our solutions:

IT Management and Governance with vendors such as Niku, Mercury Interactive and Compuware

New Product Development with vendors such as IDE, Sopheon, SAP and MatrixOne

Aerospace and Defense Program management with vendors such as Primavera, Welcom, Microsoft, SAP and Oracle

We expect to continue to compete very favorably on a global basis due to our solution capabilities and inbuilt intelligence, together with our ability to leverage our international presence and local market intimacy.

Research and Development

We incurred research and development expenses of approximately \$7.7 million, \$8.2 million and \$7.9 million, respectively for the years ended December 31, 2004, 2003 and 2002. Research and development expenses consist primarily of salaries and related costs associated with the development of our products.

In early 2004, we changed the leadership of our product development organization and consolidated our Product Management, Development and Tier II Support functions under a single structure, Product Operations. In late 2004 we reduced the number of resources employed in our Newport Beach development center. This restructuring of our Product Operations cost base was made in the light of Artemis licensing and having the option to acquire the rights to a best-of-breed scheduling tool for Artemis 7 rather than developing it in-house. In addition, this decision has allowed us to accelerate our plan to enlarge our offshore development team; thereby increasing new product feature throughput and achieving a higher level of customer responsiveness. We have therefore increased offshore resources both in the development and quality assurance areas. This will have the immediate benefit of allowing us to deliver a major new functional module wholly developed by this offshore team in June/July 2005.

As we proceed through the year depending on our financial condition, we will continue to add additional resources to this offshore facility, initially to provide further coverage in the area of the Tier II support function. This will help us underpin the growth forecasted by our Asian, Chinese and Japanese distribution channels by providing support coverage geographically closer to their own time zones.

We believe that continued investment in research and development is critical to attaining our strategic objectives and, as a result, we expect that spending on research and development in 2005 will remain flat except for cost savings resulting from the restructuring activities described above. Already this restructuring exercise has allowed Artemis to increase its core development capacity while retaining some of the cost savings from the actions described above.

Our plan is to increase our R&D output to strengthen our leadership in the geographical markets and/or industries we are targeting. Major new releases will increase our ability to support additional business processes and user types, increasing our footprint in the customer's organizations.

R&D efforts are performed in our facilities in the US and the UK with significant additional capacity from our partner company based in India.

In fiscal 2004, our R&D efforts focused primarily on our IP&C Artemis 7 based solutions and to a lesser extent on Artemis Views.

Services and Support

Drawing on the consolidated experience of a global network of consultants specialized in the definition and deployment of processes and systems to support enterprise investment planning and control, we have developed a structured Solution Management Methodology (sm²). This modular, phased approach enables reduction in deployment time thereby delivering more immediate benefits, accelerating ROI, and minimizing the risks frequently associated with the deployment of enterprise solutions. We regularly partner with consulting organizations and system integrators to increase the value delivered to our clients.

We offer a worldwide support network and complementary systems that ensure timely and quality responses to client requests. From all our offices worldwide, we provide both telephone and Web-based support as well as guidance on how to best use our solutions, and to resolve issues encountered during installation, deployment, and day-to-day usage of our products.

Employees

As of December 31, 2004, Artemis directly employed approximately 325 persons on a worldwide basis; 67 in the United States of America, 211 in Europe, 31 in Japan, and 16 in Asia. Our employees are not represented by labor unions or collective bargaining agreements, except as may be required by the laws of certain foreign jurisdictions. We have not experienced any work stoppages anywhere, and consider our relations with our employees worldwide to be good.

Financial Information about Geographic Areas

Our revenue is segmented by geographic region and is based upon management responsibility for such operations. The following table presents information about the Company's revenue (net of eliminations) by geographic area for each of the three years in the period ended December 31, 2004.

	For the years ended December 31,		
2004	2003	2002	
	(in thousands)		
Americas	\$ 12,039	\$ 15,642	\$ 28,074
EMEA (1)	33,744	34,423	32,640
Japan	5,196	6,073	6,335
Asia	1,466	1,153	1,615
Total revenue	\$ 52,445	\$ 57,291	\$ 68,664

(1) Europe, Middle East and Africa

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy these materials at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other corporate information regarding our Company and other companies that file materials with the SEC electronically. Our corporate headquarters are located at 4041 MacArthur Blvd., Suite 401, Newport Beach, California, 92660. Our phone number at that address is (949) 660-6500.

Item 2. Properties

Artemis leases all of its United States and international facilities pursuant to leases that expire from a month-to-month basis to January 31, 2010. In addition, the Company maintains facilities in various other locations across the United States, Europe and Asia. The Company's facilities comprise a total of 23,000 square feet in the United States and 56,000 square feet in Europe and Asia. We believe our current facilities are sufficient for our needs.

Item 3. Legal Proceedings

The Company is party to a number of legal claims arising in the ordinary course of its business. The Company believes the ultimate resolution of these claims will not have a material adverse effect on its financial position, results of operations or cash flows. See Note 16 - Contingencies/Litigations of the notes to the consolidated financial statements for information regarding legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

On November 30, 2004, the Annual Meeting of Stockholders of Artemis International Solutions Corporation was held (Annual Meeting). The Annual Meeting involved the election of directors to the Company's Board. Four directors were voted on and elected by the Stockholders: Joseph Liemandt, David Cairns, Steve Yager and Mike Murphy. Mr. Liemandt received 10,635,652 votes in the affirmative, while 5,714 votes were withheld. Mr. Cairns received 10,635,639 votes in the affirmative, while 5,727 votes

were withheld. Mr. Yager received 10,635,646 votes in the affirmative, while 5,720 votes were withheld. Mr. Murphy received 10,635,649 votes in the affirmative, while 5,717 votes were withheld. Three individuals continued as directors after the Annual Meeting and were not voted upon: Olle Odman, Pekka Pere and Bengt Älgevik.

In addition to the election of directors, five matters were voted upon and approved by the Company's stockholders at the Annual Meeting. The first such matter was a resolution to amend the Company's Amended and Restated Certificate of Incorporation. The amendment reduced the number of shares of Common Stock that the Company may issue from 500,000,000 to 50,000,000, thereby reducing the total number of shares of all classes of capital stock that the Company may issue from 525,000,000 to 75,000,000 (including 25,000,000 shares of authorized preferred stock). This resolution passed, with 10,633,727 votes in the affirmative. The number of votes cast against the resolution was 7,073, with 566 abstentions and no broker nonvotes.

The second additional matter was another resolution to amend the Company's Amended and Restated Certificate of Incorporation, effectively implementing the 20% Rule of Nasdaq Marketplace Rule 4350. The 20% Rule imposes certain requirements upon the Company before it can enter into a private transaction involving the sale, issuance or potential issuance by the Company of common stock (or securities convertible or exercisable into common stock) equal to 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance. (Further details on this resolution and the 20% Rule can be reviewed in the Definitive Proxy Statement pertaining to the Annual Meeting, filed by the Company with the SEC on October 25, 2004.) This resolution also passed, with 10,635,832 votes in the affirmative. The number of votes cast against the resolution was 3,709, with 1,825 abstentions and no broker nonvotes.

The third additional matter was a resolution to approve an amendment to and restatement of the 2000 Non-Employee Directors Stock Option Plan (Non-Employee Director Plan). The primary revisions to the Non-Employee Director Plan effectuated by the amendment included, (i) replenishing the plan with additional options authorized for issuance under the plan, (ii) providing a specific grant to newly elected directors, and (iii) providing for an automatic, annual grant for continuing directors. (Further details on this resolution and the amendment to and restatement of the Non-Employee Director Plan can be reviewed in the Definitive Proxy Statement pertaining to the Annual Meeting, filed by the Company with the SEC on October 25, 2004.) This resolution also passed, with 10,622,864 votes in the affirmative. The number of votes cast against the resolution was 17,584, with 917 abstentions and one broker nonvote.

The fourth additional matter was a resolution to approve an amendment to and restatement of the 2000 Stock Option Plan. The primary revision to the 2000 Stock Option Plan effectuated by the amendment was a replenishing of the plan with additional options that are authorized for issuance under the plan. Specifically, (i) the initial number of shares of common stock reserved for issuance under the plan increased from 300,000 shares to 2,000,000 shares, and (ii) the maximum number of shares of common stock reserved for issuance under the plan increased from 1,200,000 shares to 5,000,000 shares, after accounting for the five percent reload that is available each year immediately preceding December 31st. (Further details on this resolution and the amendment to and restatement of the 2000 Stock Option Plan can be reviewed in the Definitive Proxy Statement pertaining to the Annual Meeting, filed by the Company with the SEC on October 25, 2004.) This resolution also passed, with 10,346,412 votes in the affirmative. The number of votes cast against the resolution was 294,164, with 790 abstentions and no broker nonvotes.

The fifth matter was a resolution to ratify the selection by the Board of Squar, Milner, Reehl & Williamson LLP as the Company's independent registered public accounting firm for the year ending December 31, 2004. This resolution also passed, with 10,638,902 votes in the affirmative. The number of votes cast against the resolution was 1,900, with 564 abstentions and no broker nonvotes.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is quoted on the Over-the-Counter Nasdaq Bulletin Board (OTCBB) administered by Nasdaq. From April 4, 2000 until June 28, 2001, our common stock was listed on the Nasdaq National Market under the symbol OPUS. Since June 29, 2001, our common stock has been quoted on the OTCBB, whereby effective November 25, 2001, the trading symbol on the OTCBB was changed to AISC. Subsequent to the Company's one for twenty-five reverse stock split on February 7, 2003, the trading symbol was changed to AMSI. All information regarding common stock, stock options, warrants and related per share amounts has been restated within this annual report to reflect the February 7, 2003 reverse stock split.

Rules 15c-1 through 15c-9 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), common referred to as the penny stock rule, impose sales practice and disclosure requirements on certain broker-dealers who engage in certain transactions involving a penny stock. Subject to certain exceptions, a penny stock generally includes any non-Nasdaq equity security that has a market price of less than \$5.00 per share. The market price of our common stock on the OTCBB during the fourteen months ended February 28, 2005 has ranged between a high of \$3.25 and a low of \$1.35 per share, and our common stock is thus deemed to be penny stock for purposes of the Exchange Act. The additional sales practice and disclosure requirements imposed upon broker-dealers may discourage them from effecting transactions in our common stock, which could

severely impair the liquidity of our stock in the secondary market.

At March 11, 2005, the number of stockholders of record was approximately 715 (excluding beneficial owners and any shares held in street name or by nominees). The following table sets forth the quarterly high and low sales prices based on bid quotations per share, as retroactively adjusted for the aforementioned reverse stock split.

	Artemis International Solutions Corp	
	High	Low
YEAR ENDED DECEMBER 31, 2004		
First Quarter	\$ 2.00	\$ 1.35
Second Quarter	3.15	1.35
Third Quarter	2.50	1.90
Fourth Quarter	3.20	1.90
YEAR ENDED DECEMBER 31, 2003		
First Quarter	\$ 2.20	\$ 1.00
Second Quarter	2.05	1.35
Third Quarter	2.45	1.50
Fourth Quarter	2.00	1.35

On March 11, 2005, the last sales price of our common stock was \$2.75 per share.

The above over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

The following table provides information about the Company's common stock that may be issued upon the exercise of options under all of our existing equity compensation plans as of December 31, 2004. See Notes 1 and 15 to the Company's consolidated financial statements included elsewhere herein for additional information.

Plan category	Number of shares of common stock to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares in the first column)
Equity compensation plans approved by shareholders	1,764,516 \$	11.71	1,637,141
Equity compensation plans not approved by shareholders	47,071 \$	249.60	
Total	1,811,587 \$	17.88	1,637,141

Dividend Policy

We do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will be dependent upon our financial condition, operating results, capital requirements, general business conditions, restrictions imposed by financing arrangements, legal and regulatory restrictions on the payment of dividends and other factors that our Board of Directors deems relevant.

In August 2003, the Company obtained a revolving credit facility with Laurus Master Fund Ltd. (Laurus). Under the Security Agreement executed in connection with the revolving credit facility, the Company may not directly or indirectly declare, pay or make any dividend or distribution on any class of its stock, except for indebtedness subordinated to Laurus.

On June 16, 2004, the Company completed a private placement of \$9.0 million of convertible preferred stock (the Series A Preferred Stock). So long as at least 30% of the Series A Preferred Stock is outstanding, the Company cannot, directly or indirectly, redeem, declare or pay any cash dividend or other distribution on the common stock without the prior express written consent of the holders of at least a majority of the Series A Preferred Stock.

Stock Options

The Company has granted options to purchase the Company's Common Stock under various plans to employees and directors. All stock option plans are administered by the Compensation Committee of the Board of Directors, which determines the terms of the options granted, including the exercise price, the number of shares subject to option, and the vesting period. Options generally vest over terms of three to five years and have a maximum life of ten years.

The stock option plans adopted by Opus360 prior to the consummation of the share exchange agreement between Proha PLC and Opus360 (the Share Exchange Transactions) in 2001, and the related stock options continue in full force and effect. Even though Legacy Artemis was the acquirer for accounting purposes in the Share Exchange Transactions, Opus360 as a legal entity survived the consummation of such transaction. Options granted under Opus 360 plans are redeemable in the common stock of Artemis. Following is a description of the Company's non-stockholder approved stock option plans.

The Company assumed non-qualified stock options granted to certain key former employees of Opus360. 46,983 of these stock options with an exercise price of \$250 are outstanding and exercisable as of December 31, 2004. The options are exercisable until February 2010.

The Company also assumed non-qualified stock options granted to other employees of Opus360 who became Artemis employees after the Share Exchange Transactions. At December 31, 2004, 88 of the options with a weighted average exercise price of \$34.25 remained outstanding.

Recent Sales of Unregistered Securities

Set forth below is information regarding securities sold by the Company from January 2002 to date which were not registered under the Securities Act of 1933, as amended (the Securities Act). We believe that each transaction was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof and/or Regulation D promulgated thereunder as transactions not involving a public offering, based on the private nature of the transactions and the financial sophistication of the purchasers, all of whom had access to complete information concerning the Company and acquired the securities for investment and not with a view to the distribution thereof.

Security Type	Name of Security Holder	Date Issued	No of Shares
Debt convertible into common stock and warrants	Laurus Master Fund, Ltd.	8/14/2003*	847,646(a)
Preferred stock & warrants	Emancipation Capital LP	6/16/2004	1,652,284

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Preferred stock & warrants	Samuelson Investment, Inc.	6/16/2004	1,376,904
Preferred stock & warrants	Philip Hempleman	6/16/2004	550,761
Preferred stock & warrants	Porridge, LLC	6/16/2004	550,761
Preferred stock & warrants	Potomac Capital Partners, LP	6/16/2004	421,332
Preferred stock & warrants	Potomac Capital International Ltd	6/16/2004	140,444
Preferred stock & warrants	Pleades Investment Partners R, LP	6/16/2004	264,366

* As amended on July 30, 2004 (See Note 6 to the Company's consolidated financial statements included elsewhere herein for additional information.).

(a) The securities sold in these transactions were the convertible note payable and the related warrant. The number of common shares noted above represents the maximum which may be issued. As described in the aforementioned Note to the Company's consolidated financial statements, the Laurus Master Fund, Ltd. beneficial ownership of the Company's common stock is contractually limited to 2.5% of the outstanding shares.

The aggregate selling price, the conversion terms of the preferred stock, the terms of exercise of the related warrants, and the use of net proceeds received in the above June 16, 2004 transactions are disclosed in Note 14 to the Company's consolidated financial statements included elsewhere herein.

As more fully described in Notes 6 and 14 to the aforementioned financial statements, the common stock underlying the convertible

note payable to Laurus, the convertible preferred stock transactions listed above, and the warrants issued in such transactions were subsequently registered with the SEC.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this report. The selected consolidated financial data are derived from our audited consolidated financial statements, which have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the financial statements, the Company has incurred substantial recurring losses from operations and may incur losses in the future. These and other factors as described in Note 1 raise substantial doubt about the Company's ability to continue as a going concern.

	2004	Year Ended December 31,		2001	Nine Months Ended December 31, 2000(a)(b)(c)
		2003	2002		
		(in thousands, except per share data)			
Summary of operations data:					
Revenues	\$ 52,445	\$ 57,291	\$ 68,664	\$ 67,646	\$ 34,822
Operating (loss)	(9,553)	(8,092)	(3,746)	(66,483)	(11,398)
Net (loss)	(9,685)	(7,891)	(3,948)	(59,764)	(10,797)
Basic and diluted loss per common share	(0.97)	(0.79)	(0.40)	(6.78)	(1.40)
Shares used in computing loss per common share	9,988	9,965	9,965	8,816	7,689
Balance sheet data:					
Cash and cash equivalents	3,720	2,593	7,766	5,081	3,200
Working capital deficiency	(3,420)	(9,016)	(4,964)	(5,432)	(2,823)
Total assets	22,320	28,358	39,005	38,570	103,488
Long-term debt, including amounts due within one year	1,939	676	1,185	2,618	5,546
Total stockholders' equity (deficit)	(5,805)	(3,173)	4,721	9,582	60,905

(a) On August 24, 2000 Proha purchased all of the outstanding common stock of Legacy Artemis. The purchase was structured as a share exchange whereby Proha issued shares of its publicly traded common stock to Legacy Artemis' equity holders in exchange for all of Legacy Artemis' common stock. As a result of the transaction Legacy Artemis recorded goodwill of approximately \$30.7 million. Legacy Artemis also recorded approximately \$32.3 million of identifiable intangible assets and an expense of \$2.3 million attributed to in-process research and development.

(b) During the nine months ended December 31, 2000, Legacy Artemis paid a cash dividend of \$140,000. No other dividends were declared or paid since Legacy Artemis' inception.

- (c) The independent auditor's report relating to the nine months ended December 31, 2000 is not included herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discusses the financial condition and results of operations of Artemis and should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

Safe Harbor Statement

The Management's Discussion and Analysis and other portions of this report include forward-looking statements (versus historical facts) within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are subject to risks and uncertainties that could cause actual results to differ materially from those described. Although we believe our expectations that are expressed in these forward-looking statements are reasonable, we cannot promise that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. With respect to forward-looking statements, the Company invokes the protection afforded by the Private Securities Litigation Reform Act of 1995.

Overview

Artemis is one of the world's leading providers of investment planning and control software and services. Since 1976 we have been helping organizations improve their performance through portfolio, project and resource management. Improved performance requires continuous alignment of investments with strategic business goals, consequently the ability to effectively select, plan, budget and control investment projects becomes the key for optimizing corporate resources. We believe this creates an even greater requirement for integrated investment planning and control solutions to support the needs of value creation, visibility, governance and compliance.

The Company has a 29-year history of successfully delivering enterprise and project management solutions to Global 2000 customers with the most extensive portfolio, project and resource management needs. Companies trust Artemis' software to manage their business-critical processes. Customers use our software in such key areas as (i) IT management and governance (ii) developing and launching new products such as pharmaceuticals, (iii) helping governmental agencies promote business efficiency through better alignment and allocation of resources, (iv) optimizing strategic assets in utilities and (v) managing key aerospace and defense programs.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, the valuation of long-lived and intangible assets and the amortization of intangible assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in preparation of our consolidated financial statements:

Revenue recognition;

Valuation of long-lived and intangible assets;

Amortization of intangible assets;

Valuation of deferred tax assets; and

Estimation of the allowance for doubtful accounts receivable.

Revenue recognition

The Company has adopted Statement of Position, or SOP 97-2, *Software Revenue Recognition*, as amended, which generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair market values of each of the elements. The estimated fair value of an element is based on vendor-specific objective evidence (VSOE). Software license revenue allocated to a software product is recognized upon delivery of the product, or deferred and recognized in future periods to the extent that an arrangement includes one or more elements that are to be delivered at a future date and for which VSOE has not been established. Maintenance and support revenue is recognized ratably over the maintenance term. First-year maintenance typically is sold with the related software license and renewed on an annual basis thereafter. Estimated fair values of ongoing maintenance and support obligations are based on separate sales of renewals to other customers or upon renewal rates quoted in the contracts. For such arrangements with multiple elements, we allocate revenue to each component of the arrangement based on the estimated fair value of the undelivered elements. Fair value of services, such as consulting or training, is based upon separate sales of these services. The Company at times may enter into multiple-customer contracts in which the Company allocates revenue based on the number of specified users at each customer, and recognizes revenue upon customer acceptance and satisfying the other applicable conditions of the above described accounting policy.

Services revenue is recognized as the service is performed assuming that sufficient evidence exists to estimate the fair value of the services. Consulting and training services are billed based on contractual hourly rates and revenues are recognized as the services are

performed. Consulting services primarily consist of implementation services related to the installation of the Company's products which do not require significant customization to or modification of the underlying software code.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If we made different judgments or utilized different estimates for any period, material differences in the amount and/or timing of revenue recognized could result.

Valuation of long-lived and intangible assets

The Company's business combinations were accounted for using the purchase method of accounting. In connection with the 2001 reverse acquisition of Opus360, the adoption of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* resulted in the allocation of negative goodwill in the amount of approximately \$10.5 million as a direct reduction of certain acquired Opus360 non-current assets. At December 31, 2001, the Company recorded an impairment charge which resulted in the complete write-off of goodwill and a partial write-off of its identifiable intangible assets. (The intangible assets described in the preceding sentence were recorded in conjunction with the push-down to the Company's consolidated financial statements of Proha's acquisition of all of Legacy Artemis' outstanding common stock in August 2000). As a result of the complete write off of goodwill at December 31, 2001, the adoption of SFAS No. 144 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, had no impact on the amortization expense during 2002.

In accordance with SFAS No. 144, we assess intangible assets and other long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable through the estimated undiscounted future cash flows resulting from the use of the assets. If we determine that the carrying value of any such assets may not be recoverable, we measure impairment by using the projected discounted cash-flow method in accordance with SFAS No. 144.

Amortization of intangible assets

Intangible assets at December 31, 2004 consist of acquired customer bases. Customer bases acquired directly are valued at cost, which approximates estimated fair value at the time of purchase. The costs assigned to intangible assets are being amortized on a straight-line basis over the estimated useful life of the assets, which is forty two months from January 1, 2002.

Valuation of deferred tax assets

The Company records an estimated valuation allowance on its significant deferred tax assets when, based on the weight of available evidence (including the scheduled reversal of deferred tax liabilities, projected future taxable income or loss, and tax-planning strategies), it is more likely than not that some or all of the tax benefit will not be realized.

Allowance for doubtful accounts receivable

We establish our allowance for doubtful accounts receivable based on our qualitative and quantitative review of credit profiles of our customers, contractual terms and conditions, current economic trends and historical payment, return and discount experience. We reassess the allowance for doubtful accounts each period. If we made different judgments or utilized different estimates for any period, material differences in the amount and/or timing of such allowance could result.

Significant Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities, or VIEs), and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (a) the equity investors do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. As amended in December 2003, the effective dates of FIN No. 46 for public entities that are not small business issuers are as follows: (a) For interests in special-purpose entities: the first period ended after December 15, 2003; and (b) For all other types of VIEs: the first period ended after March 15, 2004. Management has determined that the Company does not have any VIEs, and there is no impact on its consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendments of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. This pronouncement is effective for contracts

entered into or modified after June 30, 2003 (with certain exceptions), and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity, and is effective for public companies as follows: (i) in November 2003, the FASB issued FASB Staff Position (FSP) FAS 150-03 (FSP 150-3), which defers indefinitely (a) the measurement and classification guidance of SFAS No. 150 for all mandatorily redeemable non-controlling interests in (and issued by) limited-life consolidated subsidiaries, and (b) SFAS No. 150's measurement guidance for other types of mandatorily redeemable non-controlling interests, provided they were created before November 5, 2003; (ii) for financial instruments entered into or modified after May 31, 2003 that are outside the scope of FSP 150-3; and (iii) otherwise, at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 on the aforementioned effective dates. The adoption of this pronouncement did not have a material impact on the Company's results of operations or financial condition.

In December 2003, the FASB issued a revision of SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This pronouncement (SFAS No. 132-R) expands employers' disclosures about pension plans and other post-retirement benefits, but does not change the measurement or recognition of such plans required by SFAS No. 87, No. 88, or No. 106. SFAS No. 132-R retains the existing disclosure requirements of SFAS No. 132, and requires certain additional disclosures about defined benefit post-retirement plans. The defined benefit pension plan of the Company's United Kingdom subsidiary is the Company's only defined benefit post-retirement plan. Except as described in the following sentence, SFAS No. 132-R is effective for foreign pension plans for fiscal years ending after June 15, 2004; after the effective date, restatement for some of the new disclosures is required for earlier annual periods. Some of the interim-period disclosures mandated by SFAS No. 132-R (such as the components of net periodic benefit cost, and certain key assumptions) are effective for foreign pension plans for quarters beginning after December 15, 2003; other interim-period disclosures will not be required for the Company until the first quarter of 2005. The interim-period disclosure requirements which became effective on January 1, 2004 and December 31, 2004 were adopted by the Company on those dates. The Company is presently evaluating the other effects of SFAS No. 132-R on its financial statement disclosures.

In December 2004, the FASB issued SFAS No. 123-R which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. As originally issued, SFAS No. 123 established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that pronouncement permitted entities to continue applying the intrinsic-value-based model of APB Opinion 25, provided that the financial statements disclosed the pro forma net income or loss based on the fair-value method. The Company is required to apply SFAS No. 123-R as of the first interim reporting period that begins after June 15, 2005. Thus, the Company's consolidated financial statements will reflect an expense for (a) all share-based compensation arrangements granted after June 30, 2005 and for any such arrangements that are modified, cancelled, or repurchased after that date, and (b) the portion of previous share-based awards for which the requisite service has not been rendered as of that date, based on the grant-date estimated fair value of those awards.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants and the Securities and Exchange Commission (the SEC), did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Results of Operations

The following table sets forth the unaudited percentage of total revenues represented by certain items in our consolidated statements of operations for the periods indicated:

	2004		Year ended December 31, 2003		2002	
		% of Revenue	(in millions)	% of Revenue		% of Revenue
Revenue:						
Software	\$ 13.1	25	\$ 13.3	23	\$ 15.1	22
Support	17.2	33	16.6	29	15.7	23
Services	22.2	42	27.4	48	37.9	55
	52.5	100	57.3	100	68.7	100
Cost of revenue:						
Software	0.2		0.7	1	1.7	2
Support	5.7	11	5.1	9	6.4	9
Services	17.6	34	20.3	35	24.6	36
	23.5	45	26.1	45	32.7	47
Gross margin	29.0	55	31.2	55	36.0	53
Operating expenses						
Selling and marketing	14.3	27	15.9	28	12.5	18
Research and development	7.7	15	8.2	14	7.9	11
General and administrative	8.7	17	11.1	19	15.2	22
Amortization expense	4.1	8	4.1	7	4.1	6
Impairment charge	0.9	2				
Restructuring charges	2.7	5				