

PARAMETRIC TECHNOLOGY CORP

Form 10-Q/A

December 11, 2007

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

**AMENDMENT NO. 1
TO
FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 30, 2006
Commission File Number: 0-18059**

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

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

**04-2866152
(I.R.S. Employer
Identification Number)**

**140 Kendrick Street, Needham, MA 02494
(Address of principal executive offices, including zip code)
(781) 370-5000
(Registrant's telephone number, including area code)**

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

There were 114,063,113 shares of our common stock outstanding on February 2, 2007.

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EXPLANATORY NOTE

Items Amended by this Form 10-Q/A

This Amendment No. 1 (Form 10-Q/A) to our Quarterly Report on Form 10-Q for the quarterly period ended December 30, 2006 as originally filed with the Securities and Exchange Commission (SEC) on February 8, 2007 (the Original Form 10-Q) amends certain sections of the Original Form 10-Q to reflect the restatement of our unaudited consolidated financial statements (and related disclosures) as of December 30, 2006 and September 30, 2006 and for the three months ended December 31, 2005 described below. With this Form 10-Q/A, we are amending:

Part I, Item 1 Unaudited Financial Statements;

Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations; and

Part I, Item 4 Controls and Procedures.

This Form 10-Q/A also includes updated certifications from our Chief Executive Officer and Chief Financial Officer required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The updated certifications are included in this Form 10-Q/A as Exhibits 31.1, 31.2 and 32.

This Form 10-Q/A makes only the changes described above and does not modify or update such items in any other respect, or any other items or disclosures presented in the Original Form 10-Q. Further, this Form 10-Q/A does not reflect any other events occurring after February 8, 2007, the date we filed the Original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC since the filing date of the Original Form 10-Q, including our Current Reports on Form 8-K, our Annual Report on Form 10-K for the year ended September 30, 2007, and the amendments to our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2007 and June 30, 2007.

Restatement of Prior Period Financial Statements

In our Annual Report on Form 10-K for fiscal 2007, filed on November 29, 2007, we restated our consolidated financial statements as of September 30, 2006 and for the years ended September 30, 2006 and 2005 as well as our consolidated financial statements (excluding footnotes) for the quarterly periods in fiscal 2007 and 2006, as included in Item 8 Financial Statements and Supplementary Data. With the filing of this Form 10-Q/A, we are concurrently filing amendments to our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2007 and June 30, 2007, as originally filed with the SEC, to restate our unaudited financial statements and related financial information for those periods and the comparative 2006 periods for the effects of the restatement.

We do not intend to file any other amended Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods affected by the restatement. For this reason, the Consolidated Financial Statements and related financial information contained in any of our filings with the SEC prior to November 29, 2007 should no longer be relied upon.

Background of the Restatement

As a result of an independent investigation led by the Audit Committee of our Board of Directors, the Audit Committee concluded on October 29, 2007 that we would need to restate our previously issued financial statements for the effect of certain transactions involving Toshiba Corporation of Japan (Toshiba), for which we recorded revenue of approximately \$41 million during fiscal 2001 through 2006. Based on its investigation, the Audit Committee concluded that the understanding of the arrangement was not fully reflected in the order paperwork for these transactions because there were additional circumstances known or knowable by one or more of our personnel in Japan. That condition required us to change our conclusion that the transactions met the revenue recognition criteria of Statement of Position 97-2, *Software Revenue Recognition*.

The results of the investigation indicate that during the period 2001 to 2006, an employee of Toshiba Corporation initiated purchases of both software and services from our subsidiary in Japan, PTC Japan K.K. (PTC Japan). Many of these purchases were completed through a third party trading company that procured the software and services on Toshiba's behalf. The transactions were supported by orders that were signed by employees of Toshiba and the third party trading company. PTC Japan delivered the items for which revenue was recorded and was paid for the orders in question. The Toshiba employee also allegedly entered into a series of financing agreements with third party leasing

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companies, including GE Capital Leasing Corporation of Japan (GECL), in the name of Toshiba to fund various purchases. As part of those transactions, the leasing companies allegedly entered into transactions with various third party trading companies to procure the purchased items on behalf of Toshiba. We were not a party to those financing agreements. Toshiba has disclaimed responsibility for repayment of these financed amounts and has alleged that the Toshiba employee who entered into the financing agreements was not authorized to do so and that Toshiba did not receive delivery of the items so financed.

Recently, the Toshiba employee involved in the transactions was arrested and charged with defrauding certain of the leasing companies. Among the allegations against him are that he forged contracts in the name of Toshiba. In addition, three individuals each employed by a different trading company involved in the transactions have been arrested for alleged involvement in a scheme to defraud the leasing companies. According to published news reports, the Toshiba employee and these other individuals are suspected of diverting some of the proceeds of the financings to a bank account controlled by one or more of them. Following these arrests, it was reported on October 23, 2007 that two former employees of PTC Japan were arrested on suspicion of demanding hush money from one of the participants in the fraudulent scheme. The press accounts indicate that the former PTC Japan employees who left employment with PTC Japan in 2003 and 2004, respectively were no longer working at PTC Japan at the time of the alleged demands. According to the press accounts, these individuals have not been charged with participating in the alleged underlying fraud.

To effect the restatement of revenue associated with the transactions placed by the Toshiba employee, we reduced previously recorded revenue by approximately \$8 million in fiscal 2006, \$15 million in fiscal 2005, \$9 million in fiscal 2004, \$2 million in fiscal 2003 and \$7 million in prior years, and recorded related income tax effects. We did not make any adjustments to the costs incurred in connection with these transactions due to the uncertainty regarding our ultimate ability to retain the advances received for these transactions and our belief that all such costs are unrecoverable. Upon restatement, the revenue reversed from those prior periods was deferred and classified as Customer Advances in our consolidated balance sheets. That liability (which totaled \$39.0 million and \$39.5 million at December 30, 2006 and September 30, 2006, respectively, after the effects of foreign currency movements) will remain recorded until the rights and obligations of the several companies connected with the Toshiba transactions are resolved. To the extent that matters are resolved in our favor, we will reduce Customer Advances and record revenue or other income at that time.

Our restatement of prior period financial statements also includes adjustments for other previously identified errors that we had corrected in the periods they became known to us rather than in the periods in which they originated because we believed that the amounts of such errors, individually and in the aggregate, were not material to our financial statements for the affected periods. In this restatement, we have now recorded those corrections in the periods in which each error originated. Such adjustments, which have been tax effected, primarily relate to (i) recording rent expense on a straight-line basis for one of our office facilities, (ii) recording stock-based compensation expense due to the timing of approvals for certain stock options we granted, (iii) deferring or reversing revenue for certain customer orders in the Asia-Pacific region, and (iv) reversing an income tax reserve that was unwarranted when established.

Summary of the Restatement Effects

A summary of the cumulative revenue and net income effects of the restatement on our consolidated financial statements is as follows:

| | Year ended September 30, | | | | Prior |
|---------------------------------|--|-------------|-------------|-------------|--------------|
| | 2006 | 2005 | 2004 | 2003 | Years |
| | (in thousands, except per share data) | | | | |
| Revenue, as previously reported | \$ 854,918 | \$ 720,719 | \$ 660,029 | \$ 671,940 | |
| Adjustments | (6,935) | (12,744) | (8,361) | (2,487) | \$ (10,506) |
| Revenue, as restated | \$ 847,983 | \$ 707,975 | \$ 651,668 | \$ 669,453 | |

| | | | | | |
|---|-----------|-----------|-----------|--------------|-------------|
| Net income (loss), as previously reported | \$ 60,866 | \$ 83,592 | \$ 34,813 | \$ (98,280) | |
| Adjustments | (4,062) | (10,405) | (3,228) | (2,907) | \$ (12,927) |
| Net income (loss), as restated | \$ 56,804 | \$ 73,187 | \$ 31,585 | \$ (101,187) | |
| Earnings (loss) per share Diluted, as previously reported | \$ 0.54 | \$ 0.75 | \$ 0.32 | \$ (0.93) | |
| Adjustments | (0.04) | (0.10) | (0.03) | (0.03) | |
| Earnings (loss) per share Diluted, as restated | \$ 0.50 | \$ 0.65 | \$ 0.29 | \$ (0.96) | |

The adjustments made as a result of the restatement are more fully described in Note 2 to our consolidated financial statements included in Part I, Item 1 Unaudited Financial Statements of this Form 10-Q/A.

PARAMETRIC TECHNOLOGY CORPORATION
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For the Quarter Ended December 30, 2006

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PART I FINANCIAL INFORMATION
PARAMETRIC TECHNOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

| | December 30, 2006 Restated Note 2 | September 30, 2006 Restated Note 2 |
|--|--|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 147,341 | \$ 183,448 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,698 and \$4,900 at December 30, 2006 and September 30, 2006, respectively | 195,757 | 181,008 |
| Prepaid expenses | 21,001 | 20,495 |
| Other current assets (Note 1) | 58,314 | 51,824 |
| Deferred tax assets | 1,327 | 1,341 |
| | | |
| Total current assets | 423,740 | 438,116 |
| Property and equipment, net | 52,441 | 51,603 |
| Goodwill | 263,585 | 249,252 |
| Acquired intangible assets, net | 79,796 | 77,870 |
| Deferred tax assets | 8,858 | 9,148 |
| Other assets | 74,142 | 75,398 |
| | | |
| Total assets | \$ 902,562 | \$ 901,387 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,284 | \$ 17,109 |
| Accrued expenses and other current liabilities | 49,500 | 52,128 |
| Accrued compensation and benefits | 48,930 | 72,632 |
| Accrued income taxes | 8,121 | 5,761 |
| Customer advances (Note 2) | 38,999 | 39,475 |
| Deferred revenue (Note 1) | 196,014 | 197,769 |
| | | |
| Total current liabilities | 361,848 | 384,874 |
| Other liabilities (Note 3) | 96,996 | 97,413 |
| Deferred revenue (Note 1) | 9,540 | 13,228 |
| | | |
| Commitments and contingencies (Note 11) | | |
| | | |
| Stockholders equity: | | |
| Preferred stock, \$0.01 par value; 5,000 shares authorized; none issued | | |
| Common stock, \$0.01 par value; 500,000 shares authorized; 113,946 and 111,880 shares issued and outstanding at December 30, 2006 and September 30, 2006, respectively | 1,139 | 1,119 |

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| | | |
|--|-------------|-------------|
| Additional paid-in capital | 1,734,512 | 1,723,570 |
| Accumulated deficit | (1,261,068) | (1,276,221) |
| Accumulated other comprehensive loss | (40,405) | (42,596) |
| Total stockholders' equity | 434,178 | 405,872 |
| Total liabilities and stockholders' equity | \$ 902,562 | \$ 901,387 |

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

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PARAMETRIC TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

| | Three months ended | |
|---|----------------------------------|--|
| | December 30, 2006 | December 31, 2005 Restated Note 2 |
| Revenue: | | |
| License | \$ 66,588 | \$ 58,980 |
| Service | 155,079 | 133,872 |
| Total revenue | 221,667 | 192,852 |
| Costs and expenses: | | |
| Cost of license revenue | 3,560 | 3,303 |
| Cost of service revenue | 68,568 | 59,001 |
| Sales and marketing | 69,561 | 63,924 |
| Research and development | 37,984 | 34,583 |
| General and administrative | 18,923 | 19,629 |
| Amortization of acquired intangible assets | 2,088 | 1,358 |
| Total costs and expenses | 200,684 | 181,798 |
| Operating income | 20,983 | 11,054 |
| Other income (expense), net | 780 | 1,099 |
| Income before income taxes | 21,763 | 12,153 |
| Provision for income taxes | 6,610 | 4,800 |
| Net income | \$ 15,153 | \$ 7,353 |
| Earnings per share Basic (Note 5) | \$ 0.14 | \$ 0.07 |
| Earnings per share Diluted (Note 5) | \$ 0.13 | \$ 0.07 |
| Weighted average shares outstanding Basic | 111,830 | 109,485 |
| Weighted average shares outstanding Diluted | 117,283 | 112,671 |

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

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PARAMETRIC TECHNOLOGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Three months ended | |
|---|----------------------------------|--|
| | December 30, 2006 | December 31, 2005 Restated Note 2 |
| Cash flows from operating activities: | | |
| Net income | \$ 15,153 | \$ 7,353 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation and amortization | 9,536 | 8,061 |
| Stock-based compensation | 8,630 | 9,664 |
| Other non-cash costs (credits), net | 69 | 581 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (8,302) | (4,720) |
| Accounts payable and accrued expenses | (1,786) | (4,664) |
| Customer advances | | 416 |
| Accrued compensation and benefits | (25,818) | (23,464) |
| Deferred revenue | (14,895) | (9,697) |
| Accrued income taxes | 2,735 | (2,673) |
| Other current assets and prepaid expenses | 639 | 2,579 |
| Other noncurrent assets and liabilities | (2,299) | (4,903) |
| Net cash used by operating activities | (16,338) | (21,467) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (6,345) | (3,350) |
| Acquisitions of businesses, net of cash acquired | (17,639) | (10,675) |
| Net cash used by investing activities | (23,984) | (14,025) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 7,788 | 832 |
| Payments of withholding taxes in connection with settlement of restricted stock units | (5,549) | (102) |
| Tax benefit from stock-based awards | 94 | |
| Payments of capital lease obligations | (121) | (94) |
| Net cash provided by financing activities | 2,212 | 636 |
| Effect of exchange rate changes on cash and cash equivalents | 2,003 | (2,415) |
| Net decrease in cash and cash equivalents | (36,107) | (37,271) |
| Cash and cash equivalents, beginning of period | 183,448 | 204,423 |

| | | |
|--|------------|------------|
| Cash and cash equivalents, end of period | \$ 147,341 | \$ 167,152 |
|--|------------|------------|

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

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PARAMETRIC TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

| | Three months ended | |
|---|---------------------------|-----------------|
| | December | December |
| | 30, | 31, |
| | 2006 | 2005 |
| | Restated | Restated |
| | Note 2 | Note 2 |
| Net income | \$ 15,153 | \$ 7,353 |
| Other comprehensive income (loss), net of tax provision (benefit): | | |
| Foreign currency translation adjustment, net of tax of \$0 | 2,216 | 405 |
| Change in unrealized gain on investment securities, net of tax of \$0 | (25) | 327 |
| Other comprehensive income | 2,191 | 732 |
| Comprehensive income | \$ 17,344 | \$ 8,085 |

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

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**PARAMETRIC TECHNOLOGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Parametric Technology Corporation (PTC) and its wholly owned subsidiaries and have been prepared by management in accordance with accounting principles generally accepted in the United States of America and in accordance with the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. While we believe that the disclosures presented are adequate to make the information not misleading, these unaudited quarterly financial statements should be read in conjunction with our 2006 annual consolidated financial statements and related notes (as restated) included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. A reclassification of \$5.3 million and \$5.7 million from accounts payable to accrued expenses and other current liabilities has been made in the December 30, 2006 and September 30, 2006 consolidated balance sheets, respectively, for consistent presentation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair statement of our financial position, results of operations and cash flows at the dates and for the periods indicated. Unless otherwise indicated, all references to a year reflect our fiscal year, which ends on September 30. The year-end consolidated balance sheet is derived from our audited financial statements.

Effective on February 28, 2006, we implemented a reverse stock split pursuant to which every five shares of issued and outstanding common stock of PTC were automatically combined into two issued and outstanding shares of common stock without any change in the par value of such shares. Except for par values, all references in these financial statements and notes to the number of shares of common stock, restricted stock, restricted stock units and stock options and to such per share amounts have been restated to reflect this reverse stock split.

Deferred revenue primarily relates to software maintenance agreements billed to customers for which the services have not yet been provided. The liability associated with performing these services is included in deferred revenue and, if not yet paid, the related customer receivable is included in other current assets. Billed but uncollected maintenance-related amounts included in other current assets at December 30, 2006 and September 30, 2006 were \$56.6 million and \$50.0 million, respectively.

The results of operations for the three months ended December 30, 2006 are not necessarily indicative of the results expected for the remainder of the fiscal year.

2. Restatement of Consolidated Financial Statements

In this Form 10-Q/A, we are restating our consolidated balance sheets as of December 30, 2006 and September 30, 2006, our consolidated statement of operations and cash flows for the quarter ended December 31, 2005, and our consolidated statements of comprehensive income for the quarters ended December 30, 2006 and December 31, 2005, as well as all related footnotes.

As a result of an independent investigation led by the Audit Committee of our Board of Directors, the Audit Committee concluded on October 29, 2007 that we would need to restate our previously issued financial statements for the effect of certain transactions involving Toshiba Corporation of Japan (Toshiba), for which we recorded revenue of approximately \$41 million during fiscal 2001 through 2006. Based on its investigation, the Audit Committee concluded that the understanding of the arrangement was not fully reflected in the order paperwork for these transactions because there were additional circumstances known or knowable by one or more of our personnel in Japan. That condition required us to change our conclusion that the transactions met the revenue recognition criteria of Statement of Position 97-2, *Software Revenue Recognition*.

The results of the investigation indicate that during the period 2001 to 2006, an employee of Toshiba Corporation initiated purchases of both software and services from our subsidiary in Japan, PTC Japan K.K. (PTC Japan). Many of these purchases were completed through a third party trading company that procured the software and

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services on Toshiba's behalf. The transactions were supported by orders that were signed by employees of Toshiba and the third party trading company. PTC Japan delivered the items for which revenue was recorded and was paid for the orders in question. The Toshiba employee also allegedly entered into a series of financing agreements with third party leasing companies, including GE Capital Leasing Corporation of Japan (GECL), in the name of Toshiba to fund various purchases. As part of those transactions, the leasing companies allegedly entered into transactions with various third party trading companies to procure the purchased items on behalf of Toshiba. We were not a party to those financing agreements. Toshiba has disclaimed responsibility for repayment of these financed amounts and has alleged that the Toshiba employee who entered into the financing agreements was not authorized to do so and that Toshiba did not receive delivery of the items so financed.

Recently, the Toshiba employee involved in the transactions was arrested and charged with defrauding certain of the leasing companies. Among the allegations against him are that he forged contracts in the name of Toshiba. In addition, three individuals each employed by a different trading company involved in the transactions have been arrested for alleged involvement in a scheme to defraud the leasing companies. According to published news reports, the Toshiba employee and these other individuals are suspected of diverting some of the proceeds of the financings to a bank account controlled by one or more of them. Following these arrests, it was reported on October 23, 2007 that two former employees of PTC Japan were arrested on suspicion of demanding hush money from one of the participants in the fraudulent scheme. The press accounts indicate that the former PTC Japan employees who left employment with PTC Japan in 2003 and 2004, respectively were no longer working at PTC Japan at the time of the alleged demands. According to the press accounts, these individuals have not been charged with participating in the alleged underlying fraud.

To effect the restatement of revenue associated with the transactions placed by the Toshiba employee (the Revenue Adjustment), we reduced previously recorded revenue by \$7.7 million in fiscal 2006, \$15.5 million in fiscal 2005, \$8.5 million in fiscal 2004, \$2.1 million in fiscal 2003 and \$7.1 million in prior years, and recorded related income tax effects. We did not make any adjustments to the costs incurred in connection with these transactions due to the uncertainty regarding our ultimate ability to retain the advances received for these transactions and our belief that all such costs are unrecoverable. Upon restatement, the revenue reversed from those prior periods was deferred and classified as Customer Advances in our consolidated balance sheets. That liability (which totaled \$39.0 million and \$39.5 million at December 30, 2006 and September 30, 2006, respectively, after the effects of foreign currency movements) will remain recorded until the rights and obligations of the several companies connected with the Toshiba transactions are resolved. To the extent that matters are resolved in our favor, we will reduce Customer Advances and record revenue or other income at that time.

Our restatement of prior period financial statements also includes adjustments for other previously identified errors that we had corrected in the periods they became known to us rather than in the periods in which they originated because we believed that the amounts of such errors, individually and in the aggregate, were not material to our financial statements for the affected periods. In this restatement, we have now recorded those corrections in the periods in which each error originated. Such adjustments (the Other Adjustments), which have been tax effected, primarily relate to (i) deferring or reversing revenue for certain customer orders in the Asia-Pacific region and (ii) reversing an income tax reserve that was unwarranted when established.

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The following tables present the effect of the restatement adjustments by financial statement line item for our consolidated balance sheets as of December 30, 2006 and September 30, 2006, our consolidated statements of operations and cash flows for the quarter ended December 31, 2005, and our consolidated statements of comprehensive income for the three months ended December 30, 2006 and December 31, 2005:

| Consolidated Balance Sheet | As Reported | December 30, 2006 | | Restated |
|--|------------------------|--|---------------------------------|-----------------|
| | | Revenue Adjustment (in thousands) | Other Adjustments(1) | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 147,341 | \$ | \$ | \$ 147,341 |
| Accounts receivable | 195,757 | | | 195,757 |
| Prepaid expenses | 21,001 | | | 21,001 |
| Other current assets | 58,314 | | | 58,314 |
| Deferred tax assets | 1,327 | | | 1,327 |
| Total current assets | 423,740 | | | 423,740 |
| Property and equipment, net | 52,441 | | | 52,441 |
| Goodwill | 263,585 | | | 263,585 |
| Acquired intangible assets, net | 79,796 | | | 79,796 |
| Deferred tax assets | 2,983 | 5,875 | | 8,858 |
| Other assets | 74,142 | | | 74,142 |
| Total assets | \$ 896,687 | \$ 5,875 | \$ | \$ 902,562 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 20,284 | \$ | \$ | \$ 20,284 |
| Accrued expenses and other current liabilities | 49,500 | | | 49,500 |
| Accrued compensation and benefits | 48,930 | | | 48,930 |
| Accrued income taxes | 9,426 | | (1,305) | 8,121 |
| Customer advances | | 38,999 | | 38,999 |
| Deferred revenue | 196,014 | | | 196,014 |
| Total current liabilities | 324,154 | 38,999 | (1,305) | 361,848 |
| Other liabilities | 96,996 | | | 96,996 |
| Deferred revenue | 9,540 | | | 9,540 |
| Stockholders' equity: | | | | |
| Common stock | 1,139 | | | 1,139 |
| Additional paid-in capital | 1,734,512 | | | 1,734,512 |
| Accumulated deficit | (1,227,539) | (34,834) | 1,305 | (1,261,068) |
| Accumulated other comprehensive loss | (42,115) | 1,710 | | (40,405) |
| Total stockholders' equity | 465,997 | (33,124) | 1,305 | 434,178 |
| Total liabilities and stockholders' equity | \$ 896,687 | \$ 5,875 | \$ | \$ 902,562 |

- (1) Consists of the effect of the correction we made in 2007 to reverse an income tax reserve that was unwarranted when established in 2004.

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| Consolidated Balance Sheet | As Reported | September 30, 2006 | | Restated |
|--|------------------------|-------------------------------|---------------------------------|-----------------|
| | | Revenue Adjustment | Other Adjustments(1) | |
| | | (in thousands) | | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 183,448 | \$ | \$ | \$ 183,448 |
| Accounts receivable | 181,008 | | | 181,008 |
| Prepaid expenses | 20,495 | | | 20,495 |
| Other current assets | 51,824 | | | 51,824 |
| Deferred tax assets | 1,341 | | | 1,341 |
| Total current assets | 438,116 | | | 438,116 |
| Property and equipment, net | 51,603 | | | 51,603 |
| Goodwill | 249,252 | | | 249,252 |
| Acquired intangible assets, net | 77,870 | | | 77,870 |
| Deferred tax assets | 3,205 | 5,943 | | 9,148 |
| Other assets | 75,398 | | | 75,398 |
| Total assets | \$ 895,444 | \$ 5,943 | \$ | \$ 901,387 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 17,109 | \$ | \$ | \$ 17,109 |
| Accrued expenses and other current liabilities | 52,128 | | | 52,128 |
| Accrued compensation and benefits | 72,632 | | | 72,632 |
| Accrued income taxes | 7,066 | | (1,305) | 5,761 |
| Customer advances | | 39,475 | | 39,475 |
| Deferred revenue | 197,769 | | | 197,769 |
| Total current liabilities | 346,704 | 39,475 | (1,305) | 384,874 |
| Other liabilities | 97,413 | | | 97,413 |
| Deferred revenue | 13,228 | | | 13,228 |
| Stockholders' equity: | | | | |
| Common stock | 1,119 | | | 1,119 |
| Additional paid-in capital | 1,723,570 | | | 1,723,570 |
| Accumulated deficit | (1,242,692) | (34,834) | 1,305 | (1,276,221) |
| Accumulated other comprehensive loss | (43,898) | 1,302 | | (42,596) |
| Total stockholders' equity | 438,099 | (33,532) | 1,305 | 405,872 |
| Total liabilities and stockholders' equity | \$ 895,444 | \$ 5,943 | \$ | \$ 901,387 |

(1) Consists of the effect of the

correction we
made in 2007 to
reverse an
income tax
reserve that was
unwarranted
when
established in
2004.

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| Consolidated Statement of Operations | Three months ended December 31, 2005 (1) | | | |
|---|---|-------------------|-----------------------|-----------------|
| | | Revenue | Other | |
| | As Reported | Adjustment | Adjustments(2) | Restated |
| | (in thousands, except per share data) | | | |
| Revenue: | | | | |
| License | \$ 58,527 | \$ | \$ 453 | \$ 58,980 |
| Service | 133,991 | (416) | 297 | 133,872 |
| Total revenue | 192,518 | (416) | 750 | 192,852 |
| Costs and expenses: | | | | |
| Cost of license revenue | 3,303 | | | 3,303 |
| Cost of service revenue | 58,722 | | 279 | 59,001 |
| Sales and marketing | 63,645 | | 279 | 63,924 |
| Research and development | 34,583 | | | 34,583 |
| General and administrative | 19,629 | | | 19,629 |
| Amortization of acquired intangible assets | 1,358 | | | 1,358 |
| Total costs and expenses | 181,240 | | 558 | 181,798 |
| Operating income (loss) | 11,278 | (416) | 192 | 11,054 |
| Other income (expense), net | 1,099 | | | 1,099 |
| Income (loss) before income taxes | 12,377 | (416) | 192 | 12,153 |
| Provision for (benefit from) income taxes | 4,861 | (61) | | 4,800 |
| Net income (loss) | \$ 7,516 | \$ (355) | \$ 192 | \$ 7,353 |
| Earnings per share Basic | \$ 0.07 | | | \$ 0.07 |
| Earnings per share Diluted | \$ 0.07 | | | \$ 0.07 |

(1) Our consolidated statement of operations for the three months ended December 30, 2006 was not affected by the restatement.

(2) Consists of the reversal of the corrections we made in 2006 of \$0.8 million for

revenue
erroneously
recorded from
2002 to 2004 in
the Asia-Pacific
region as well as
the reversal of
related legal
reserves
recorded in
2004, net of the
related income
tax effects of
these two items,
which was \$0
because of our
full valuation
allowance
against net
deferred tax
assets.

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| Consolidated Statement of Cash Flows | Three months ended December 31, 2005(1) | | | |
|---|--|--|------------------------------|-----------------|
| | As Reported | Revenue Adjustment (in thousands) | Other Adjustments | Restated |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ 7,516 | \$ (355) | \$ 192 | \$ 7,353 |
| Adjustments to reconcile net income (loss) to net cash used by operating activities: | | | | |
| Stock-based compensation | 9,664 | | | 9,664 |
| Depreciation and amortization | 8,061 | | | 8,061 |
| Other non-cash costs (credits), net | 642 | (61) | | 581 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | | |
| Accounts receivable | (4,720) | | | (4,720) |
| Accounts payable and accrued expenses | (5,222) | | 558 | (4,664) |
| Customer advances | | 416 | | 416 |
| Accrued compensation and benefits | (23,464) | | | (23,464) |
| Deferred revenue | (8,947) | | (750) | (9,697) |
| Accrued income taxes, net of income tax receivable | (2,673) | | | (2,673) |
| Other current assets and prepaid expenses | 2,579 | | | 2,579 |
| Other noncurrent assets and liabilities | (4,903) | | | (4,903) |
| Net cash used by operating activities | (21,467) | | | (21,467) |
| Cash flows from investing activities: | | | | |
| Additions to property and equipment | (3,350) | | | (3,350) |
| Acquisitions of businesses, net of cash acquired | (10,675) | | | (10,675) |
| Net cash used by investing activities | (14,025) | | | (14,025) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of common stock | 832 | | | 832 |
| Payments of withholding taxes in connection with settlement of restricted stock units | (102) | | | (102) |
| Payments of capital lease obligations | (94) | | | (94) |
| Net cash provided by financing activities | 636 | | | 636 |
| Effect of exchange rate changes on cash and cash equivalents | (2,415) | | | (2,415) |
| Net decrease in cash and cash equivalents | (37,271) | | | (37,271) |
| Cash and cash equivalents, beginning of period | 204,423 | | | 204,423 |
| Cash and cash equivalents, end of period | \$ 167,152 | \$ | \$ | \$ 167,152 |

- (1) Our consolidated statement of cash flows for the three months ended December 30, 2006 was not affected by the restatement.

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| Consolidated Statement of Comprehensive Income | Three months ended December 30, 2006 | | | |
|---|---|-------------------|--------------------|-----------------|
| | As Reported | Revenue | Other | Restated |
| | | Adjustment | Adjustments | |
| Comprehensive income (loss): | | | | |
| Net income | \$ 15,153 | \$ | \$ | \$ 15,153 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment, net of tax of \$0 | 1,808 | 408 | | 2,216 |
| Change in unrealized gain on investment securities, net of tax of \$0 | (25) | | | (25) |
| Other comprehensive income | 1,783 | 408 | | 2,191 |
| Comprehensive income | \$ 16,936 | \$ 408 | \$ | \$ 17,344 |

| Consolidated Statement of Comprehensive Income | Three months ended December 31, 2005 | | | |
|---|---|-------------------|--------------------|-----------------|
| | As Reported | Revenue | Other | Restated |
| | | Adjustment | Adjustments | |
| Comprehensive income (loss): | | | | |
| Net income (loss) | \$ 7,516 | \$ (355) | \$ 192 | \$ 7,353 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment, net of tax of \$0 | (579) | 984 | | 405 |
| Change in unrealized gain on investment securities, net of tax of \$0 | 327 | | | 327 |
| Other comprehensive income (loss) | (252) | 984 | | 732 |
| Comprehensive income | \$ 7,264 | \$ 629 | \$ 192 | \$ 8,085 |

3. Restructuring and Other Charges

There were no restructuring and other charges recorded in the first quarters of 2007 and 2006.

The following table summarizes restructuring accrual activity for the three months ended December 30, 2006:

| | Employee Severance and Related Benefits | Facility Closures and Other Costs | Total |
|-----------------------------|--|--|--------------|
| | (in thousands) | | |
| Balance, September 30, 2006 | \$ 1,084 | \$ 21,293 | \$ 22,377 |
| Cash disbursements | (142) | (1,399) | (1,541) |
| Foreign exchange impact | 32 | 75 | 107 |

| | | | |
|----------------------------|--------|-----------|-----------|
| Balance, December 30, 2006 | \$ 974 | \$ 19,969 | \$ 20,943 |
|----------------------------|--------|-----------|-----------|

The accrual for facility closures and related costs is included in accrued expenses and other current liabilities and other long-term liabilities in the consolidated balance sheet, and the accrual for employee severance and related benefits is included in accrued compensation and benefits. As of December 30, 2006, of the \$20.9 million remaining in accrued restructuring charges, \$8.1 million was included in current liabilities and \$12.8 million was included in other long-term liabilities, principally for facility costs to be paid out through 2014.

In determining the amount of the facilities accrual, we are required to estimate such factors as future vacancy rates, the time required to sublet properties and sublease rates. These estimates are reviewed quarterly based on known real estate market conditions and the credit-worthiness of subtenants, and may result in revisions to established facility reserves. We had accrued \$19.4 million as of December 30, 2006 related to excess facilities (compared to \$20.7 million at September 30, 2006), representing gross lease commitments with agreements expiring at various dates through 2014 of approximately \$44.4 million, net of committed and estimated sublease income of approximately \$24.5 million and a present value factor of \$0.5 million. We have entered into signed sublease arrangements for approximately \$21.6 million, with the remaining \$2.9 million based on future estimated sublease arrangements, including \$2.1 million for space currently available for sublease.

Table of Contents**4. Stock-based Compensation**

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)) on July 3, 2005, effective with the beginning of the fourth quarter of 2005. SFAS No. 123(R) requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award using an option pricing model. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Our equity incentive plans provide for grants of nonqualified and incentive stock options, common stock, restricted stock, restricted stock units and stock appreciation rights to employees, directors, officers and consultants. Until July 2005, we generally granted stock options. For those options, the option exercise price was typically the fair market value at the date of grant and they generally vested over four years and expired ten years from the date of grant. Since the date that we adopted SFAS 123(R), we have awarded restricted stock and restricted stock units as the principal equity incentive awards, including certain performance-based awards that are earned based on achieving performance criteria established by the Compensation Committee of our Board of Directors on or prior to the grant date. Each restricted stock unit represents the contingent right to receive one share of our common stock. Our equity incentive plans are described more fully in Note J to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

We made the following restricted stock and restricted stock unit grants in the first quarters of 2007 and 2006:

| Grant Period | Restricted Stock | | Restricted Stock Units | |
|-----------------------|---|-------------------|--|-------------------|
| | Performance-based (Number of Shares) | Time-based | Performance-based (Number of Units) | Time-based |
| First quarter of 2007 | 495,768 | | 57,380 | 347,827 |
| First quarter of 2006 | 515,617 | 346,800 | 321,821 | 802,137 |

Restricted Stock

Performance-based. In the first quarters of 2007 and 2006, we granted to our executive officers performance-based shares that are earned based on achievement of certain company operating performance criteria specified by the Compensation Committee on or prior to the date of grant. With respect to the 2007 grant, if the specified performance criteria are achieved in full, the restrictions on approximately 251,235 shares will lapse on the later of November 9, 2007 or the date the Compensation Committee determines the extent to which the performance criteria have been achieved, and the restrictions on the remaining 244,533 shares will lapse in substantially equal amounts on November 9, 2008 and 2009, provided that the holder of the award remains employed by us at those dates. With respect to the 2006 grant, because the specified performance criteria were achieved in full, the restrictions on 284,417 of the shares lapsed on November 9, 2006 and the restrictions on the remaining shares will lapse in equal installments on November 9, 2007 and 2008, provided that the holder of the award remains employed by us at those dates.

Time-based. In the first quarter of 2006, 346,800 shares were granted to our executive officers. The restrictions on one third of these shares lapsed on November 9, 2006 and those on the remaining shares will lapse in substantially equal installments on November 9, 2007 and 2008, provided that the holder of the award remains employed by us at those dates.

Restricted Stock Units

Performance-based. In the first quarter of 2007, 57,380 performance-based restricted stock units were granted to employees in connection with our employee management incentive plans for the 2007 fiscal year and will vest on the later of November 9, 2007 or the date the Compensation Committee determines the extent to which the performance criteria have been achieved, provided that the holder of the award remains employed by us at those dates. In the first quarter of 2006, 321,821 performance-based restricted stock units were granted to employees in connection with our employee management incentive plans for the 2006 fiscal year and were earned in full on November 9, 2006 based on achievement of specified performance criteria established by the Compensation Committee.

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Time-based. In the first quarter of 2007, 347,827 restricted stock units, which vest in three substantially equal installments on November 3, 2007, 2008 and 2009, were granted to employees. In the first quarter of 2006, 802,137 time-based restricted stock units were granted to employees, which vest in three substantially equal installments on November 9, 2006, 2007 and 2008, provided that the holder of the award remains employed by us at those dates. With respect to all types of equity awards, in the first quarter of 2007, the restrictions on 635,129 restricted shares lapsed and 948,019 restricted stock units vested. The fair value of restricted shares and restricted stock units granted in the first quarter of 2007 was based on the fair market value of our stock on the date of grant. The weighted average fair value per share of restricted shares and restricted stock units granted in the first quarter of 2007 was \$18.61. The following table shows the classification of compensation expense recorded for our stock-based awards as reflected in our consolidated statements of operations:

| | Three months ended | |
|--|---------------------------|-----------------|
| | December | December |
| | 30, | 31, |
| | 2006 | 2005 |
| | (in thousands) | |
| Cost of license revenue | \$ 21 | \$ 40 |
| Cost of service revenue | 1,910 | 1,947 |
| Sales and marketing | 1,565 | 2,315 |
| Research and development | 1,842 | 2,105 |
| General and administrative | 3,292 | 3,257 |
| Total stock-based compensation expense | \$ 8,630 | \$ 9,664 |

5. Common Stock and Earnings Per Share (EPS)

Basic EPS is calculated by dividing net income by the weighted average number of shares outstanding during the period. Unvested restricted shares, although legally issued and outstanding, are not considered outstanding for purposes of calculating basic earnings per share. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding plus the dilutive effect, if any, of outstanding stock options, restricted shares and restricted stock units using the treasury stock method. The calculation of the dilutive effect of outstanding equity awards under the treasury stock method includes consideration of unrecognized compensation expense and any tax benefits as additional proceeds.

The following table presents the calculation for both basic and diluted EPS:

| | Three months ended | |
|---|------------------------------|-----------------|
| | December | December |
| | 30, | 31, |
| | 2006 | 2005 |
| | Restated | |
| | Note 2 | |
| | (in thousands, except | |
| | per share data) | |
| Net income | \$ 15,153 | \$ 7,353 |
| Weighted average shares outstanding Basic | 111,830 | 109,485 |
| Dilutive effect of employee stock options, restricted shares and restricted stock units | 5,453 | 3,186 |

| | | |
|---|---------|---------|
| Weighted average shares outstanding Diluted | 117,283 | 112,671 |
| Earnings per share Basic | \$ 0.14 | \$ 0.07 |
| Earnings per share Diluted | \$ 0.13 | \$ 0.07 |

Stock options to purchase 3.5 million shares and 4.4 million shares were outstanding for the first quarters of 2007 and 2006, respectively, but were not included in the calculation of diluted net income per share because the exercise prices per share, plus the tax benefits and unamortized compensation relating thereto, were greater than the average market price of our common stock for those periods. These shares were excluded from the computation of diluted EPS as the effect would have been anti-dilutive.

Table of Contents**6. Acquisitions***ITEDO*

On October 18, 2006, we acquired ITEDO Software GmbH and ITEDO Software LLC (together, ITEDO), headquartered in Germany, for approximately \$16.7 million in cash. In addition, we agreed to pay up to \$0.5 million of additional cash consideration if specified product integration targets are achieved within three years of the acquisition date. ITEDO provided software solutions for creating and maintaining technical illustrations to customers in multiple discrete manufacturing vertical markets such as automotive, aerospace and defense, and industrial equipment. ITEDO had approximately 30 employees and generated revenue of approximately \$5 million for the twelve months ended July 31, 2006. Results of operations for ITEDO have been included in the accompanying consolidated statement of operations since October 19, 2006. Our results of operations prior to this acquisition, if presented on a pro forma basis as if the companies had been combined since the beginning of fiscal 2006, would not differ materially from our reported results.

This acquisition was accounted for as a business combination. The purchase price allocation is preliminary pending the final valuation of assets and liabilities acquired. The preliminary purchase price allocation recorded in the accompanying consolidated balance sheet as of December 30, 2006 resulted in an increase in goodwill of \$11.8 million, an increase in intangible assets of \$5.6 million (including purchased software of \$4.7 million, customer relationships of \$0.7 million, and other intangible assets of \$0.2 million, which are being amortized over estimated average useful lives of 4 to 10 years) and an increase in other net liabilities of \$0.7 million. The goodwill and intangible assets are not deductible for tax purposes.

Mathsoft

On April 28, 2006, we acquired Mathsoft Corporate Holdings, Inc., including its wholly owned subsidiary Mathsoft Engineering & Education, Inc. (together, Mathsoft). Mathsoft's primary product was Mathcad® software, which helps engineering organizations create, automate, document and reuse engineering calculations in the product development process, and in other mathematics-driven processes. Mathsoft had approximately 120 employees in offices primarily in the U.S. and Europe and generated revenue of approximately \$20 million for the twelve months ended March 31, 2006. Results of operations for Mathsoft have been included in the accompanying consolidated statement of operations since April 29, 2006. Our results of operations prior to this acquisition, if presented on a pro forma basis as if the companies had been combined since the beginning of fiscal 2006, would not differ materially from our reported results.

DENC and Cadtrain

In the first quarter of 2006, we acquired DENC AG and substantially all of the assets of Cadtrain, Inc. for an aggregate of \$9.9 million in cash. In addition, we agreed to pay up to an aggregate of \$2.0 million of additional cash consideration if specified targets, including revenue and customer retention results, were achieved within one year of the acquisition dates. As of September 30, 2006, the specified targets of the DENC contingent purchase price arrangement were met and related payments of \$0.5 million were recorded as additional goodwill. In the first quarter of 2007, the specified targets of the Cadtrain contingent purchase price arrangement were met and related payments of \$1.5 million were recorded as additional goodwill.

7. Goodwill and Acquired Intangible Assets

We have two reportable segments: (1) software products and (2) services. As of December 30, 2006 and September 30, 2006, goodwill and acquired intangible assets in the aggregate attributable to our software products reportable segment was \$315.9 million and \$300.9 million, respectively, and attributable to our services reportable segment was \$27.5 million and \$26.2 million, respectively. Goodwill and other intangible assets are tested for impairment at least annually, or on an interim basis if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting segment below its carrying value. We completed our annual impairment review as of July 1, 2006 and concluded that no impairment charge was required as of that date. Since that date, there have not been any events or changes in circumstances that indicate that the carrying values of goodwill or acquired intangible assets may not be recoverable.

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Goodwill and acquired intangible assets consisted of the following:

| | December 30, 2006 | | | September 30, 2006 | | |
|---|-----------------------|--------------------------|----------------------------------|-----------------------|--------------------------|----------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value (in thousands) | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Goodwill and intangible assets with indefinite lives (not amortized): | | | | | | |
| Goodwill | | | \$ 263,585 | | | \$ 249,252 |
| Trademarks | | | 4,246 | | | 4,200 |
| | | | 267,831 | | | 253,452 |
| Intangible assets with finite lives (amortized): | | | | | | |
| Purchased software | \$ 60,944 | \$ 36,698 | 24,246 | \$ 56,096 | \$ 35,098 | 20,998 |
| Capitalized software | 22,877 | 22,675 | 202 | 22,877 | 22,252 | 625 |
| Customer lists and relationships | 65,649 | 17,076 | 48,573 | 64,634 | 15,195 | 49,439 |
| Trademarks and tradenames | 1,748 | 403 | 1,345 | 1,645 | 313 | 1,332 |
| Other | 1,935 | 751 | 1,184 | 1,910 | 634 | 1,276 |
| | \$ 153,153 | \$ 77,603 | 75,550 | \$ 147,162 | \$ 73,492 | 73,670 |
| Total goodwill and acquired intangible assets | | | \$ 343,381 | | | \$ 327,122 |

The changes in the carrying amounts of goodwill and intangible assets with indefinite lives at December 30, 2006 from September 30, 2006 are due to the impact of acquisitions (described in Note 6) and to foreign currency translation adjustments related to those asset balances that are recorded in non-U.S. currencies.

Changes in goodwill, presented by reportable segment, were as follows:

| | Software Products Segment | Services Segment (in thousands) | Total |
|---|---------------------------|------------------------------------|------------|
| Balance, September 30, 2006 | \$ 231,699 | \$ 17,553 | \$ 249,252 |
| Acquisition of ITEDO | 11,832 | | 11,832 |
| Additional purchase price paid for Cadtrain acquisition | | 1,500 | 1,500 |
| Foreign currency translation adjustments | 937 | 64 | 1,001 |
| Balance, December 30, 2006 | \$ 244,468 | \$ 19,117 | \$ 263,585 |

The aggregate amortization expense for intangible assets with finite lives recorded for the first quarters of 2007 and 2006 was classified in our consolidated statements of operations as follows:

| | Three months ended | |
|--|---------------------------|-----------------|
| | December | December |
| | 30, | 31, |
| | 2006 | 2005 |
| | (in thousands) | |
| Amortization of acquired intangible assets | \$ 2,088 | \$ 1,358 |
| Cost of license revenue | 1,711 | 1,196 |
| Cost of service revenue | 32 | |
| Total amortization expense | \$ 3,831 | \$ 2,554 |

Table of Contents**8. Recent Accounting Pronouncements***Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*

In September 2006, the FASB issued Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). For fiscal years ending after December 15, 2006, SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan), generally measured as the difference between plan assets at fair value and the projected benefit obligation, as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also generally requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. In addition, SFAS 158 requires disclosure in the notes to financial statements of additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. Upon initial application of SFAS 158 and subsequently, an employer should continue to apply the provisions in SFAS 87, 88 and 106 in measuring plan assets and benefit obligations as of the date of its statement of financial position and in determining the amount of net periodic benefit cost. Because our significant defined benefit pension plans are frozen and the accumulated benefit obligation equals the projected benefit obligation, we have already recorded in other long-term liabilities and accumulated other comprehensive income the minimum pension liability. As such, the adoption of SFAS 158 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure relative to uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption encouraged. We will adopt FIN 48 in fiscal 2008. We are currently evaluating whether or not the adoption of FIN 48 will have a material effect on our consolidated financial position, results of operations or cash flows.

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe the adoption of SFAS 157 in fiscal 2009 will have a material effect on our consolidated financial position, results of operations or cash flows.

Quantifying Financial Statement Misstatements

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108) regarding the process of quantifying financial statement misstatements. SAB 108 states that registrants should use both a balance sheet approach and an income statement approach when quantifying and evaluating materiality of a misstatement. The interpretations in SAB 108 contain guidance on correcting errors under the dual approach as well as provide transition guidance for correcting errors. This interpretation does not change the requirements within SFAS 154, *Accounting Changes and Error Corrections*, for the correction of an error in financial statements. SAB 108 is effective for financial statements covering the first fiscal year ending after November 15, 2006. Our adoption of SAB 108 in the first quarter of 2007 did not have a material effect on our financial position, results of operations or cash flows.

Table of Contents**9. Segment Information**

We operate within a single industry segment — computer software and related services. Operating segments as defined by SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision making group is our executive officers. We have two operating and reportable segments:

(1) Software Products, which includes license and maintenance revenue (including new releases and technical support); and (2) Services, which includes consulting, implementation, training and other support revenue. In our consolidated statements of operations, maintenance revenue is included in service revenue. We do not allocate certain sales, marketing or administrative expenses to our operating segments, as these activities are managed separately. We report our revenue in two product categories:

Enterprise Solutions, which includes Windchill®, Pro/INTRALINK®, Arbortext® Publishing Engine , Arbortext IsoView and all other solutions that help companies collaborate, manage and publish information across an extended enterprise; and

Desktop Solutions, which includes Pro/ENGINEER®, Arbortext Editor , Arbortext IsoDraw , Mathcad® and all other solutions that help companies create content and improve desktop productivity.

The revenue and operating income (loss) attributable to these operating segments are summarized as follows:

| | Three months ended | |
|---|----------------------------------|--|
| | December 30, 2006 | December 31, 2005 Restated Note 2 |
| | (in thousands) | |
| Revenue: | | |
| Software Products segment: | | |
| License: | | |
| Desktop solutions | \$ 43,330 | \$ 36,097 |
| Enterprise solutions | 23,258 | 22,883 |
| Total software products license revenue | 66,588 | 58,980 |
| Maintenance: (1) | | |
| Desktop solutions | 81,369 | 73,020 |
| Enterprise solutions | 19,215 | 16,330 |
| Total software products maintenance revenue | 100,584 | 89,350 |
| Total software products revenue | 167,172 | 148,330 |
| Services segment: | | |
| Desktop solutions | 19,561 | 16,871 |
| Enterprise solutions | 34,934 | 27,651 |
| Total services revenue | 54,495 | 44,522 |
| Total revenue: | | |
| Desktop solutions | 144,260 | 125,988 |

| | | |
|-------------------------------------|------------|------------|
| Enterprise solutions | 77,407 | 66,864 |
| Total revenue | \$ 221,667 | \$ 192,852 |
| Operating income (loss): (2) | | |
| Software Products segment | \$ 108,316 | \$ 94,916 |
| Services segment | 1,151 | (309) |
| Sales and marketing expenses | (69,561) | (63,924) |
| General and administrative expenses | (18,923) | (19,629) |
| Total operating income | \$ 20,983 | \$ 11,054 |

(1) Maintenance revenue is included in Service Revenue in the consolidated statements of operations.

(2) The operating income (loss) reported for each operating segment does not represent the total operating results as it does not contain an allocation of sales, marketing, corporate and general and administrative expenses incurred in support of the operating segments.

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Data for the geographic regions in which we operate is presented below:

| | Three months ended | |
|-------------------|---------------------------|-----------------|
| | December | December |
| | 30, | 31, |
| | 2006 | 2005 |
| | | Restated |
| | | Note 2 |
| | (in thousands) | |
| Revenue: | | |
| North America (1) | \$ 86,481 | \$ 75,855 |
| Europe (2) | 82,743 | 75,037 |
| Asia-Pacific (3) | 52,443 | 41,960 |
| Total revenue | \$ 221,667 | \$ 192,852 |

(1) Includes revenue in the United States totaling \$82.5 million and \$72.6 million for the three months ended December 30, 2006 and December 31, 2005, respectively.

(2) Includes revenue in Germany and France totaling \$24.8 million and \$18.8 million, respectively, for the three months ended December 30, 2006 and \$20.0 million and \$22.6 million, respectively, for the three months

ended
December 31,
2005.

- (3) Includes revenue in Japan totaling \$24.5 million and \$19.3 million for the three months ended December 30, 2006 and December 31, 2005, respectively.

Total long-lived tangible assets by geographic region have not changed significantly since September 30, 2006.

10. Income Taxes

Our income tax provisions for the first quarter of 2007 and 2006 consist primarily of taxes owed in relation to the income generated by our foreign subsidiaries as well as additional withholding taxes that we incurred in the U.S. in connection with certain foreign operations. The tax provisions of those periods include insignificant amounts in relation to the income that we generated in the U.S., due to our utilization of available net operating loss carryforwards that previously had been recorded in our balance sheet with a full valuation allowance.

As of the end of the first quarter of 2007, a full valuation allowance was recorded against our net deferred tax assets in the U.S. and certain foreign jurisdictions. We concluded that as of December 30, 2006 it was still more likely than not that our net deferred tax assets in the U.S. and certain foreign jurisdictions would not be realized. While we have realized consolidated operating profits over the past three years and in the first quarter of 2007, we have only recently begun to show consistent profitability in the U.S. and, as recently as the fourth quarter of 2005, our U.S. legal entities incurred a taxable loss, due principally to the tax expense associated with the grant and vesting of restricted stock units and our employee stock option exchange.

Significant management judgment is required to determine when the realization of our deferred tax assets in the future is considered more likely than not. If and when we conclude that realization is more likely than not, we will record a reduction to our valuation allowance that will result in an increase to net income and adjustments to goodwill, accumulated other comprehensive loss, and additional paid-in capital in the period such determination is made.

11. Commitments and Contingencies

Revolving Credit Agreement

On February 21, 2006, we entered into a multi-currency bank revolving credit facility with a syndicate of seven banks. The credit facility was established primarily for general corporate purposes, including acquisitions of businesses. The credit facility consists of a \$230 million revolving credit facility, which may be increased by up to an additional \$150 million if the existing or additional lenders are willing to make increased commitments. The

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credit facility expires on February 20, 2011, when all amounts will be due and payable in full. Any obligations under the credit facility are guaranteed by PTC's material domestic subsidiaries and are collateralized by a pledge of 65% of the capital stock of PTC's material first-tier non-U.S. subsidiaries. We have not borrowed any funds under the credit facility to date.

Interest rates under the credit facility would range from 0.75% to 1.50% above the Eurodollar rate for Eurodollar-based borrowings or would be at the defined base rate for base rate borrowings, in each case based upon our leverage ratio. In addition, we may borrow certain foreign currencies at the London interbank-offered interest rates for those currencies, with the same range above such rates based on our leverage ratio. A quarterly commitment fee based on the undrawn portion of the credit facility is required to be paid by us, ranging from 0.125% to 0.30% per year, depending upon our leverage ratio.

The credit facility limits our and our subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; pay dividends and make other distributions; make investments and enter into joint ventures; dispose of assets; and engage in transactions with affiliates, except on an arms-length basis. Under the credit facility, we and our material domestic subsidiaries may not invest cash or property in, or loan cash to, our foreign subsidiaries in aggregate amounts exceeding \$25 million for any purpose and an additional \$50 million for acquisitions of businesses. In addition, under the credit facility, we and our subsidiaries must maintain specified leverage and fixed-charge ratios. Any failure to comply with the financial or operating covenants of the credit facility would not only prevent us from being able to borrow additional funds, but would also constitute a default, resulting in, among other things, the amounts outstanding, including all accrued interest and unpaid fees, becoming immediately due and payable. A change in control of PTC (as defined in the credit facility) also constitutes an event of default, permitting the lenders to accelerate the required payments of all amounts due and to terminate the credit facility. We were in compliance with all financial and operating covenants of the credit facility as of December 30, 2006.

Legal Proceedings

PTC is a party to an informal legal proceeding relating to a dispute between a large customer and its third-party financing provider. The customer is disputing amounts claimed to be due by the financing provider, which amounts relate in part to purchases of PTC software and services from 2003 to 2006. The customer has defended its non-payment by disputing certain aspects of the transactions, including the authority of its representative to procure items on its behalf and to enter into the transactions with the financing provider. The total amount in dispute is unclear, but PTC has been paid for substantially all orders relating to this customer. Despite being a party to the informal legal proceeding, PTC is not a party to the disputed contracts between the customer and its third-party financing provider and we believe that neither the customer nor its financing provider has any basis for recourse against PTC. We continue to review this matter and intend to defend vigorously any effort to recover the disputed amounts from PTC if any such action were to be commenced against PTC.

In December 2006, we and Rand A Technology Corporation and Rand Technologies Limited (together, "Rand") reached an agreement to settle the lawsuit filed by Rand on May 30, 2003 in the U.S. District Court for the District of Massachusetts and the lawsuit filed by us against Rand in 2005. As a result of this agreement to settle, we recorded a charge of \$2.3 million in general and administrative expense in the fourth quarter of 2006. The settlement was finalized and paid in the second quarter of 2007.

We also are subject to various legal proceedings and claims that arise in the ordinary course of business. We currently believe that resolving these other matters will not have a material adverse impact on our financial condition or results of operations.

Guarantees and Indemnification Obligations

We enter into standard indemnification agreements in our ordinary course of business. Pursuant to these agreements, we indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally our business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to our current products, as well as claims relating to property damage or personal injury resulting from the performance of services by us or our

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subcontractors. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. Historically, our costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and we accordingly believe the estimated fair value of these agreements is immaterial.

We warrant that our software products will perform in all material respects in accordance with our standard published specifications in effect at the time of delivery of the licensed products for a specified period of time (generally 90 to 180 days). Additionally, we generally warrant that our consulting services will be performed consistent with generally accepted industry standards. In most cases, liability for these warranties is capped. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history; however, we have never incurred significant cost under our product or services warranties. As a result, we believe the estimated fair value of these agreements is immaterial.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Restatement of Previously Issued Financial Results

As a result of an independent investigation led by the Audit Committee of our Board of Directors, the Audit Committee concluded on October 29, 2007 that we would need to restate our previously issued financial statements for the effect of certain transactions involving Toshiba Corporation of Japan (Toshiba), for which we recorded revenue of approximately \$41 million during fiscal 2001 through 2006. Based on its investigation, the Audit Committee concluded that the understanding of the arrangement was not fully reflected in the order paperwork for these transactions because there were additional circumstances known or knowable by one or more of our personnel in Japan. That condition required us to change our conclusion that the transactions met the revenue recognition criteria of Statement of Position 97-2, *Software Revenue Recognition*.

The results of the investigation indicate that during the period 2001 to 2006, an employee of Toshiba Corporation initiated purchases of both software and services from our subsidiary in Japan, PTC Japan K.K. (PTC Japan). Many of these purchases were completed through a third party trading company that procured the software and services on Toshiba's behalf. The transactions were supported by orders that were signed by employees of Toshiba and the third party trading company. PTC Japan delivered the items for which revenue was recorded and was paid for the orders in question. The Toshiba employee also allegedly entered into a series of financing agreements with third party leasing companies, including GE Capital Leasing Corporation of Japan (GECL), in the name of Toshiba to fund various purchases. As part of those transactions, the leasing companies allegedly entered into transactions with various third party trading companies to procure the purchased items on behalf of Toshiba. We were not a party to those financing agreements. Toshiba has disclaimed responsibility for repayment of these financed amounts and has alleged that the Toshiba employee who entered into the financing agreements was not authorized to do so and that Toshiba did not receive delivery of the items so financed.

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Recently, the Toshiba employee involved in the transactions was arrested and charged with defrauding certain of the leasing companies. Among the allegations against him are that he forged contracts in the name of Toshiba. In addition, three individuals each employed by a different trading company involved in the transactions have been arrested for alleged involvement in a scheme to defraud the leasing companies. According to published news reports, the Toshiba employee and these other individuals are suspected of diverting some of the proceeds of the financings to a bank account controlled by one or more of them. Following these arrests, it was reported on October 23, 2007 that two former employees of PTC Japan were arrested on suspicion of demanding hush money from one of the participants in the fraudulent scheme. The press accounts indicate that the former PTC Japan employees who left employment with PTC Japan in 2003 and 2004, respectively were no longer working at PTC Japan at the time of the alleged demands. According to the press accounts, these individuals have not been charged with participating in the alleged underlying fraud.

To effect the restatement of revenue associated with the transactions placed by the Toshiba employee, we reduced previously recorded revenue by approximately \$8 million in fiscal 2006, \$15 million in fiscal 2005, \$9 million in fiscal 2004, \$2 million in fiscal 2003 and \$7 million in prior years, and recorded related income tax effects. We did not make any adjustments to the costs incurred in connection with these transactions due to the uncertainty regarding our ultimate ability to retain the advances received for these transactions and our belief that all such costs are unrecoverable. Upon restatement, the revenue reversed from those prior periods was deferred and classified as Customer Advances in our consolidated balance sheets. That liability (which totaled \$39.0 million and \$39.5 million at December 30, 2006 and September 30, 2006, respectively, after the effects of foreign currency movements) will remain recorded until the rights and obligations of the several companies connected with the Toshiba transactions are resolved. To the extent that matters are resolved in our favor, we will reduce Customer Advances and record revenue or other income at that time.

Our restatement of prior period financial statements also includes adjustments for other previously identified errors that we had corrected in the periods they became known to us rather than in the periods in which they originated because we believed that the amounts of such errors, individually and in the aggregate, were not material to our financial statements for the affected periods. In this restatement, we have now recorded those corrections in the periods in which each error originated. Such adjustments, which have been tax effected, primarily relate to (i) recording rent expense on a straight-line basis for one of our office facilities, (ii) recording stock-based compensation expense due to the timing of approvals for certain stock options we granted, (iii) deferring or reversing revenue for certain customer orders in the Asia-Pacific region, and (iv) reversing an income tax reserve that was unwarranted when established.

Summary of the Restatement Effects

A summary of the cumulative revenue and net income effects of the restatement on our consolidated financial statements is as follows:

| | Year ended September 30, | | | | Prior |
|---|--|-------------|-------------|-------------|--------------|
| | 2006 | 2005 | 2004 | 2003 | Years |
| | (in thousands, except per share data) | | | | |
| Revenue, as previously reported | \$ 854,918 | \$ 720,719 | \$ 660,029 | \$ 671,940 | |
| Adjustments | (6,935) | (12,744) | (8,361) | (2,487) | \$ (10,506) |
| Revenue, as restated | \$ 847,983 | \$ 707,975 | \$ 651,668 | \$ 669,453 | |
| Net income (loss), as previously reported | \$ 60,866 | \$ 83,592 | \$ 34,813 | \$ (98,280) | |
| Adjustments | (4,062) | (10,405) | (3,228) | (2,907) | \$ (12,927) |

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| | | | | |
|--|-----------|-----------|-----------|--------------|
| Net income (loss), as restated | \$ 56,804 | \$ 73,187 | \$ 31,585 | \$ (101,187) |
| Earnings (loss) per share Diluted, as previously reported | \$ 0.54 | \$ 0.75 | \$ 0.32 | \$ (0.93) |
| Adjustments | (0.04) | (0.10) | (0.03) | (0.03) |
| Earnings (loss) per share Diluted, as restated | \$ 0.50 | \$ 0.65 | \$ 0.29 | \$ (0.96) |

The restatement had no effect on previously reported cash balances or on the amounts of net cash flows from operating, investing and financing activities. The adjustments made as a result of the restatement are more fully described in Note 2 to our consolidated financial statements included in Part I, Item 1 Unaudited Financial Statements of this Form 10-Q/A. Our assessment of the effectiveness of our disclosure controls and procedures is included in Part I, Item 4 Controls and Procedures of this Form 10-Q/A.

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Disclosure Amended by this Form 10-Q/A

All amounts referenced to December 30, 2006, September 30, 2006 and December 31, 2005 in the following discussion reflect the balances and amounts on a restated basis. Also, comparisons of the first quarters of 2007 and 2006 to any other quarters have been revised from those included in our Original Form 10-Q as necessary to reflect the restated information.

This Form 10-Q/A modifies only the disclosures described in the preceding paragraph to reflect the restatement and does not modify or update such disclosures in any other respect, or any other disclosures presented in the Original Form 10-Q. Further, this Form 10-Q/A does not reflect any other events occurring after February 8, 2007, the date we filed the Original Form 10-Q. We specifically note that we have not updated any forward-looking statements or our Risk Factors to reflect events occurring after the date we filed the Original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC since the filing date of the Original Form 10-Q, including our Current Reports on Form 8-K, our Annual Report on Form 10-K for the year ended September 30, 2007, and the amendments to our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2007 and June 30, 2007.

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q about our anticipated financial results and growth, as well as about the development of our products and markets, are forward-looking statements that are subject to the inherent uncertainties in predicting future results and conditions. Risks and uncertainties that could cause actual results to differ materially from those projected include the following: our ability to increase revenues or successfully execute strategic initiatives and other business initiatives while containing costs; our ability to optimize our sales and services coverage and productivity through, among other means, effective use and management of our internal resources in combination with our resellers and other strategic partners and appropriate investment in our distribution channel; our ability to successfully integrate and achieve both revenue and earnings growth from newly acquired businesses; our ability to successfully differentiate our products and services from those of our competitors and to effectively pursue opportunities within the small and medium-size business market and with strategic larger accounts; our ability to successfully help our customers expand their product development technology infrastructure to a more robust PLM product development system in order to further their global product development initiatives; as well as other risks and uncertainties referenced in Part II, Item 1A Risk Factors of this report.

Executive Overview

In the first quarter of 2007, we reported 15% revenue growth and doubled our net income from the first quarter of 2006. Our results reflect continued acceleration in organic revenue growth and contribution from our acquired businesses. We delivered increased Desktop Solutions revenue and Enterprise Solutions revenue.

We believe our operating results reflect successful execution of our strategic initiatives over the past three years (which focused on improving our product and service offerings, our distribution model, our strategic account relationships, our competitive position and our marketing programs), as well as increased technology spending by our customers. We believe our strategic initiatives have created three key competitive differentiators which we believe are causing customers to adopt our solutions: our product development system capabilities, our single platform architecture, and our unique process framework for addressing our customers' product development challenges. In particular, we believe our strategy to offer a product development system with fully integrated solutions on a common architecture provides us with a significant competitive advantage and is a major factor in our increased sales of Pro/ENGINEER and Windchill.

Acquisitions

A significant element of our growth strategy is to acquire strategic technologies that expand our product development system. Most recently, we acquired ITEDO Software GmbH and ITEDO Software LLC (together, ITEDO) in the first quarter of 2007 and Mathsoft Corporate Holdings, Inc., including its wholly owned subsidiary Mathsoft Engineering & Education, Inc. (together, Mathsoft), in the third quarter of 2006.

We acquired ITEDO on October 18, 2006. ITEDO provided software solutions for creating and maintaining technical illustrations to customers in multiple discrete manufacturing markets such as automotive, aerospace and defense, and industrial equipment. With this acquisition, we offer a complete solution for creating, managing and publishing text

and graphical content for technical publications. ITEDO had approximately 30 employees, primarily in Germany, and generated revenue of approximately \$5 million for the twelve months ended July 31, 2006.

We acquired Mathsoft on April 28, 2006. Mathsoft's Mathcad product helps organizations create, automate, document and reuse engineering calculations in the product development process, as well as other mathematics-driven processes. When combined in our product development system, Mathcad worksheets can help determine Pro/ENGINEER designs and Windchill can manage the worksheets over the life of the product. Mathsoft had approximately 120 employees in offices primarily in the U.S. and Europe and generated revenue of approximately \$20 million for the twelve months ended March 31, 2006.

Our Business

We develop, market and support product lifecycle management (PLM) and enterprise content management (ECM) software solutions and related services that help companies improve their processes for developing physical and information products.

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Our software solutions help customers decrease time to market, improve product quality, increase innovation and reduce product development cost. The PLM market encompasses the mechanical computer-aided design, manufacturing and engineering (CAD, CAM and CAE) market and the collaboration and data management solutions market, as well as many previously isolated markets that address various other phases of a product's lifecycle. These include product data management (PDM), component and supplier management, visualization and digital mockup, enterprise application integration, program and project management, after market service and portfolio management, requirements management, customer needs management, manufacturing planning, and technical and marketing publications.

The ECM market includes technologies for business process management, compliance management, document management, dynamic publishing, document archival and retrieval, knowledge management, records management and Web content management. Within the ECM market, PTC focuses on a subset of solutions that optimize the development of dynamic publications, such as those associated with technical manuals, service documents, and regulatory and compliance data sets, as well as government and financial document publishing and content management.

Our software solutions include:

- a suite of mechanical computer-aided design, engineering calculation, and XML-based document authoring tools (our desktop solutions); and
- a range of Internet-based collaboration, content and process management, and publishing technologies (our enterprise solutions).

These software solutions enable companies to:

- create* digital product content as represented by product designs and component-based documents (collectively, digital products);
- collaborate* globally on the development of content with cross-functional teams consisting of members within an organization and from the extended enterprise;
- control* content and automate processes over the course of a product's lifecycle;
- configure* content to match products and services; and
- communicate* relevant product information across the extended enterprise and to customers through multiple channels using dynamic publications.

Our software solutions historically focused on addressing the design engineering needs of manufacturing companies. Over time, we expanded our software solutions to enable customers to leverage engineering content across an extended enterprise and design chain. As part of this process, we diversified our product portfolio to include our Windchill content and process management software and our Arbortext dynamic publishing software. Our product development system for manufacturing companies, which is a combination of all of our solutions (Pro/ENGINEER[®], Windchill[®], Arbortext[®] and Mathcad[®]), enables customers to meet a broad set of needs across the product lifecycle. Additionally, the Arbortext product family, including the recently introduced Windchill-based Arbortext Content Manager, enables us to offer a dynamic publishing system to address the publishing challenges of companies in additional markets, such as the life sciences, publishing, government and financial services markets.

Our PLM and ECM solutions suite addresses significant challenges that manufacturing companies face in their product and documentation development processes: more frequent change, heterogeneity of systems, regulatory compliance, increased communication inside and outside the manufacturing enterprise to support growing globalization and outsourcing of development activities, increasingly transparent supply chains, and growing services and maintenance strategies. With our PLM software solutions suite, we provide our manufacturing customers with a product development system that permits individuals regardless of their roles in the

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commercialization of a product, the computer-based tools they use, or their location geographically or in the supply chain to participate in the product development process across the digital product value chain. We have devoted significant resources to our enterprise solutions and their integration with our design software and continue to integrate our products more tightly and make them easier to deploy. We believe this will create significant added value for our customers.

Our dynamic publishing system, which is comprised of Arbortext products and technical illustration capabilities added with our recent acquisition of ITEDO (now branded as Arbortext IsoDraw and Arbortext IsoView), enables us to address significant inefficiencies in cross-functional or complex documentation development processes. With our dynamic publishing system, our customers can create compound documents from reusable content components, manage the content and processes to enable teams to work together, and configure and publish the information for a variety of uses and audiences in a variety of formats.

Our solutions are complemented by our experienced services and technical support organizations, as well as resellers and other strategic partners. Our services and technical support organizations provide training, consulting, implementation and support services to customers worldwide. Our resellers supplement our direct sales force and provide greater geographic and small account coverage, primarily for our desktop solutions, and our strategic partners provide complementary product and/or service offerings.

Market Opportunities

Although demand for our traditional CAD/CAM/CAE solutions continues to be limited by the relative maturity and saturation of the North American and European CAD/CAM/CAE markets, the difficulty associated with displacing incumbent product design systems in the discrete manufacturing CAD market, and increased competition and price pressure from products offering more limited functionality at lower cost, we believe demand in those regions for traditional CAD/CAM/CAE solutions will continue to grow modestly. We also believe the Asia-Pacific region continues to present an opportunity with respect to such solutions because in that region the market is relatively unsaturated, the number of mechanical engineers is growing, and companies are continuing to migrate from two-dimensional to three-dimensional design tools.

We believe the broader PLM market continues to present an opportunity for greater growth and that the overall market for PLM solutions is evolving as manufacturers seek to improve their total product development processes instead of focusing solely on individual productivity in engineering or manufacturing. We also believe that the trend toward global product development will increase demand for our PLM solutions as companies develop and manufacture products across geographic and corporate boundaries.

We believe that the acquisition of Arbortext provides opportunity within our discreet manufacturing installed base to expand the sale of additional solutions. We also believe there is potential for growth in the portion of the ECM market that our Arbortext solutions address. Additionally, we believe we have an incremental opportunity to sell our Windchill-based content management solutions into vertical markets beyond our core manufacturing base as a result of the combination of Windchill-based Arbortext Content Manager, Arbortext Editor and Arbortext Publishing Engine into an end-to-end dynamic publishing solution.

Finally, we believe there is a growing opportunity in the small and medium-size business market to sell CAD/CAM/CAE solutions as manufacturers in this market migrate from two-dimensional design tools to entry-level three-dimensional design tools. Additionally, we believe these smaller manufacturers will also have a need for and will invest in enterprise solutions over the next several years.

Fiscal Year 2007 Strategies and Risks

In support of our goal to increase revenue and earnings in 2007, we plan to continue to:

- improve our product and service offerings;
- maintain and grow revenue from our traditional vertical market segments;

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leverage and optimize our distribution model, including, when appropriate, making measured increases to our direct sales force, reseller channel and services organization while continuing our efforts to increase sales productivity and services profitability;

enhance our relationships with strategic accounts;

focus on increasing revenue in the Asia-Pacific market;

make additional strategic investments in solutions for vertical market segments outside our traditional market segments, including those serviced by newly acquired companies, as demand for our products dictates; and pursue corporate development opportunities, including mergers and acquisitions and strategic partnerships.

Our success will depend on, among other factors, our ability to:

encourage our customers to expand their product development technology infrastructure to a more robust PLM product development system in order to further their global product development initiatives;

differentiate our products and services from those of our competitors to effectively pursue opportunities within the small and medium-size business market as well as with strategic, larger accounts;

optimize our sales and services coverage and productivity through, among other means, effective use and management of our internal resources in combination with our resellers and other strategic partners and appropriate investment in our distribution channel;

manage the development and enhancement of our expanding product line using our geographically dispersed development resources; and

integrate newly acquired businesses into our operations and execute future corporate development initiatives while remaining focused on organic growth opportunities, including penetration of strategic vertical markets.

We discuss additional factors affecting our revenue and operating results under Item 1A. Risk Factors.

Results of Operations

The following is a summary of our results of operations for the first quarters of 2007 and 2006, which includes the results of operations of companies we acquired beginning on their respective acquisition dates. A detailed discussion of these results follows the table below.

| | Three months ended | | |
|-----------------------------|-------------------------------------|---------------------------|----------------------------------|
| | December 30, 2006 | Percent Change | December 31, 2005 |
| | (Dollar amounts in millions) | | |
| Total revenue | \$ 221.7 | 15% | \$ 192.9 |
| Total costs and expenses | 200.7 | 10% | 181.8 |
| Operating income | 21.0 | 90% | 11.1 |
| Other income (expense), net | 0.8 | | 1.1 |
| Income before income taxes | 21.8 | | 12.2 |
| Provision for income taxes | 6.6 | | 4.8 |
| Net income | \$ 15.2 | 106% | \$ 7.4 |

Revenue for the first quarter of 2007 reflects the following:

A 15% increase in total revenue to \$221.7 million for the first quarter of 2007 from \$192.9 million for the first quarter of 2006 (on a consistent foreign currency basis, compared to the year-ago period, total revenue for the first quarter of 2007 increased 12%).

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A 13% increase in license revenue to \$66.6 million for the first quarter of 2007 from \$59.0 million for the first quarter of 2006.

A 16% increase in service revenue to \$155.1 million for the first quarter of 2007 from \$133.9 million for the first quarter of 2006.

Revenue by product category for the first quarter of 2007 reflects the following:

A 16% increase in Enterprise Solutions revenue to \$77.4 million for the first quarter of 2007 from \$66.9 million for the first quarter of 2006.

A 15% increase in Desktop Solutions revenue to \$144.3 million for the first quarter of 2007 from \$126.0 million for the first quarter of 2006.

Total costs and expenses reflect increases in our operating cost structure from acquisitions and from measured increases to support our revenue growth.

The increase in net income in the first quarter of 2007 compared to 2006 reflects improved operating margin contributions from increased revenue year over year.

The following table shows certain consolidated financial data as a percentage of our total revenue for the first quarters of 2007 and 2006:

| | Three months ended | |
|--|---------------------------|-----------------|
| | December | December |
| | 30, | 31, |
| | 2006 | 2005 |
| Revenue: | | |
| License | 30% | 31% |
| Service | 70 | 69 |
| Total revenue | 100 | 100 |
| Costs and expenses: | | |
| Cost of license revenue | 2 | 2 |
| Cost of service revenue | 31 | 31 |
| Sales and marketing | 31 | 33 |
| Research and development | 17 | 18 |
| General and administrative | 9 | 10 |
| Amortization of acquired intangible assets | 1 | |
| Total costs and expenses | 91 | 94 |
| Operating income | 9 | 6 |
| Other income (expense), net | 1 | |
| Income before income taxes | 10 | 6 |
| Provision for income taxes | 3 | 2 |
| Net income | 7% | 4% |

Revenue*Total Revenue*

Our revenue consists of software license revenue and service revenue, which includes software maintenance revenue (consisting of providing our customers software updates and technical support) as well as consulting and training revenue (including implementation services).

We report our revenue in two product categories:

Enterprise Solutions, which includes Windchill, Pro/INTRALINK, Arbortext Publishing Engine, Arbortext IsoView and all other solutions that help companies collaborate, manage and publish information across an extended enterprise; and

Desktop Solutions, which includes Pro/ENGINEER, Arbortext Editor, Arbortext IsoDraw, Mathcad and all other solutions that help companies create content and improve desktop productivity.

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The following table shows our software license revenue and our service revenue, as well as revenue by product category and by geography, for the periods stated.

| | Three months ended | | |
|---|------------------------------|-------------------|-------------------------|
| | December 30, 2006 | Percent Change | December 31, 2005 |
| | (Dollar amounts in millions) | | |
| License revenue | \$ 66.6 | 13% | \$ 59.0 |
| Service revenue: | | | |
| Maintenance revenue | 100.6 | 13% | 89.4 |
| Consulting and training service revenue | 54.5 | 22% | 44.5 |
| Total service revenue | 155.1 | 16% | 133.9 |
| Total revenue | \$ 221.7 | 15%* | \$ 192.9 |
| Revenue by product category: | | | |
| Enterprise solutions revenue | \$ 77.4 | 16% | \$ 66.9 |
| Desktop solutions revenue | 144.3 | 15% | 126.0 |
| Revenue by geography: | | | |
| North America | \$ 86.5 | 14% | \$ 75.9 |
| Europe | 82.8 | 10%* | 75.0 |
| Asia-Pacific | 52.4 | 25%* | 42.0 |

* On a consistent foreign currency basis from the comparable year-ago period, in the first quarter of 2007 total revenue increased 12%, revenue in Europe increased 3%, and revenue in Asia-Pacific increased 26%.

In the first quarter of 2007, we experienced year-over-year revenue growth in both Desktop Solutions and Enterprise Solutions. We attribute this growth to execution of our strategic initiatives and increased technology spending by our customers. The revenue growth reflects both organic growth of our Desktop Solutions and Enterprise Solutions and revenue from the recently acquired Mathsoft and ITEDO businesses. Historically, Mathsoft generated revenue of approximately \$20 million for the twelve months ended March 31, 2006 and ITEDO generated revenue of approximately \$5 million for the twelve months ended July 31, 2006. The Mathsoft and ITEDO businesses have been included in our results of operations since their acquisition dates (Mathsoft on April 28, 2006 and ITEDO on October 18, 2006). Accordingly, results for the first quarter of 2006 do not include Mathsoft or ITEDO.

License Revenue. License revenue accounted for 30% and 31% of total revenue in the first quarter of 2007 and 2006, respectively. The growth in license revenue for the first quarter of 2007 compared to the first quarter of 2006 was primarily due to organic growth in Desktop Solutions (including contributions from our reseller channel) and contributions from Mathsoft products and also reflected organic growth in Enterprise Solutions license revenue.

Consulting and training service revenue. Consulting and training service revenue, which has a lower gross profit margin than license and maintenance revenues, accounted for 25% and 23% of total revenue in the first quarter of 2007 and 2006, respectively. Growth in consulting and training services revenue is attributable to increased demand as a result of increased adoption of our software solutions. As we have increased our service revenue, we have focused on improving our consulting and training service margins by improving consulting utilization and growing revenue from higher-margin sources such as our expanding suite of computer-based training products.

Maintenance revenue. Maintenance revenue represented 45% and 46% of total revenue in the first quarter of 2007 and 2006, respectively. While maintenance revenue increased for the first quarter of 2007 compared to the comparable 2006 period, the percentage that maintenance revenue constitutes of total revenue has declined as a result of faster growth of our consulting and training service revenue and license revenue.

Revenue from Individual Customers. We enter into customer contracts that may result in revenue being recognized over multiple reporting periods. Accordingly, revenue recognized in a current quarter may be attributable to contracts entered into during the current period or in prior periods. License and/or consulting and training service revenue of \$1 million or more recognized from individual customers in the first quarter of 2007 was \$28.2 million, attributable to twelve customers, and in the first quarter of 2006 was \$27.1 million, attributable to eight customers. While our customers may not continue to spend at these levels in future periods, we believe the strong performance in 2006, continuing into 2007, is the result of a shift in customer priorities toward PLM solutions relative to other IT

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spending initiatives, our improved ability to provide broader solutions to our customers, and improvements in our competitive position due to our system architecture and product development process knowledge.

Revenue by Geography. We derived 61% of our total revenue from sales to customers outside North America in the first quarter of both 2007 and 2006. Total revenue growth in North America was primarily due to organic growth and contributions from the recently acquired Mathsoft business, whose revenues were concentrated in that region. North American revenue performance reflects positive results from our strategic account program and from our indirect channel. The increase in European revenue in the first quarter of 2007 compared to the first quarter of 2006 was due primarily to strong performance in Desktop Solutions and contributions from the Mathsoft and ITEDO acquisitions, and was favorably impacted by foreign currency exchange rates. Also, European revenue for the first quarter of 2006 included a significant customer transaction completed in that region. Revenue performance in Asia-Pacific for the first quarter of 2007 compared to the first quarter of 2006 reflected a 24% increase in revenue in the Pacific Rim and a 27% increase in revenue in Japan. The revenue increase in Japan in the first quarter of 2007 included revenue from a relatively large customer transaction. We believe that the growth in Asia-Pacific reflects better execution after strategic and organizational changes we made in that region in 2006 and improved market opportunity in the Pacific-Rim. While revenue increased in Japan in the first quarter of 2007, we do not expect revenue in Japan to increase for the remainder of 2007 at the rate it did in the first quarter of 2007.

Channel Revenue. Total sales from our reseller channel, which are primarily for our Desktop Solutions, grew 20% to \$47.3 million in the first quarter of 2007 from \$39.3 million in the first quarter of 2006. Sales from our reseller channel were 21% of total revenue for the first quarter of 2007 compared to 20% of total revenue for the first quarter of 2006. We experienced growth in our reseller channel across all major geographies, which we attribute to our efforts to expand our reseller channel, to the success of Pro/ENGINEER Wildfire among small and medium-size businesses, and to sales of recently acquired Mathsoft products.

Enterprise Solutions Revenue

The following table shows our Enterprise Solutions software license revenue and service revenue for the periods stated.

| | Three months ended | | |
|---|-------------------------------------|---------------------------|----------------------------------|
| | December 30, 2006 | Percent Change | December 31, 2005 |
| | (Dollar amounts in millions) | | |
| Enterprise Solutions: | | | |
| License revenue | \$ 23.3 | 2% | \$ 22.9 |
| Service revenue | | | |
| Maintenance revenue | 19.2 | 18% | 16.3 |
| Consulting and training service revenue | 34.9 | 26% | 27.7 |
| Total service revenue | 54.1 | 23% | 44.0 |
| Total revenue | \$ 77.4 | 16% | \$ 66.9 |

Total revenue from our Enterprise Solutions software and related services was 35% of our total revenue in both the first quarter of 2007 and 2006. The increase in Enterprise Solutions revenue in the first quarter of 2007 compared to the first quarter of 2006 was due primarily to:

- organic growth of our Windchill solutions, which reflects our success in marketing incremental adoption of our solutions in accordance with our product development system adoption roadmap, which provides customers with a suggested approach for purchasing and implementing our solutions in stages; and

more wide-spread adoption of our solutions by both our existing and new customers, which we believe is a result of customer recognition of the benefits of our broad set of capabilities delivered on a single system architecture.

License Revenue. The increase in Enterprise Solutions license revenue in the first quarter of 2007 as compared to the first quarter of 2006 reflects only modest growth because our increases in sales of Pro/INTRALINK, Windchill PDMLink® and related modules during the first quarter 2007 were offset by the impact of revenue from a single, large customer transaction being recorded in the first quarter of 2006.

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Maintenance Revenue. Increases in our Enterprise Solutions maintenance revenue are due primarily to an increase in the number of new users of our Enterprise Solutions as new customers are added and as existing customers expand their implementations to additional users.

Consulting and Training Service Revenue. Increases in our Enterprise Solutions training and consulting service revenue are due to increased customer demand for process and implementation consulting services.

Desktop Solutions Revenue

The following table shows our Desktop Solutions software license revenue and service revenue for the periods stated.

| | Three months ended | | |
|---|------------------------------|-------------------|-------------------------|
| | December 30, 2006 | Percent Change | December 31, 2005 |
| | (Dollar amounts in millions) | | |
| Desktop Solutions: | | | |
| License revenue | \$ 43.3 | 20% | \$ 36.1 |
| Service revenue | | | |
| Maintenance revenue | 81.4 | 11% | 73.0 |
| Consulting and training service revenue | 19.6 | 16% | 16.9 |
| Total service revenue | 101.0 | 12% | 89.9 |
| Total revenue | \$ 144.3 | 15% | \$ 126.0 |

Total revenue from our Desktop Solutions software and related services was 65% of our total revenue in both the first quarter of 2007 and 2006. The increase in Desktop Solutions revenue in the first quarter of 2007 as compared to the first quarter of 2006 was due primarily to organic growth and revenue contribution from the recently acquired Mathsoft business. We attribute this growth to increased technology spending by our customers and execution of our strategic initiatives, including our decision to offer Pro/ENGINEER packages with differing price points and functionality. We designed these packages to address our customers' purchasing patterns and to better compete in the small and medium-size business segment of our market.

License Revenue. The increase in Desktop Solutions license revenue in the first quarter of 2007 compared to the first quarter of 2006 was due primarily to organic growth, primarily from sales of Pro/ENGINEER, as well as revenue contribution from Mathsoft products. Pro/ENGINEER revenue grew across high and low-end packages, as well as upgrades and modules.

Maintenance Revenue. The increase in our Desktop Solutions maintenance revenue was due to higher renewal rates, the recent growth of license revenue, and revenue contributions from our acquired products.

Consulting and Training Service Revenue. Both Desktop Solutions consulting service revenue and training service revenue increased in the first quarter of 2007 compared to the first quarter of 2006. We attribute these increases primarily to an increase in the number of installed seats of our software products as a result of recent license revenue growth and higher maintenance renewal rates.

Costs and Expenses

Over the past several years, we have made significant investments necessary to transform our business from providing a single line of technical software with a largely direct distribution model, supplemented by a small number of channel partners, to providing integrated product development system solutions with an expanded channel and partner-involved distribution model. During this period, we broadened our product development system through a series of eight acquisitions completed and substantially integrated since the third quarter of 2004.

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The following table shows our costs and expenses by expense category for the periods stated.

| | Three months ended | | |
|--|-------------------------------------|---------------------------|----------------------------------|
| | December 30, 2006 | Percent Change | December 31, 2005 |
| | (Dollar amounts in millions) | | |
| Costs and expenses: | | | |
| Cost of license revenue | \$ 3.6 | 8% | \$ 3.3 |
| Cost of service revenue | 68.6 | 16% | 59.0 |
| Sales and marketing | 69.6 | 9% | 63.9 |
| Research and development | 37.9 | 10% | 34.6 |
| General and administrative | 18.9 | (4)% | 19.6 |
| Amortization of acquired intangible assets | 2.1 | 54% | 1.4 |
| Total costs and expenses | \$ 200.7 | 10%* | \$ 181.8 |

* On a consistent foreign currency basis from the prior period, total costs and expenses increased 9% in the first quarter of 2007 compared to the first quarter of 2006.

Total costs and expenses increased to \$200.7 million for the first quarter of 2007 compared to \$181.8 million for the first quarter of 2006. Headcount increased to 4,417 at December 30, 2006 from 4,309 at September 30, 2006 and 3,928 at December 31, 2005. Our increases in costs and expenses in the first quarter of 2007 were primarily due to the following:

increases in services delivery capacity to address customer demand for consulting services; and

the Mathsoft and ITEDO acquisitions completed in the third quarter of 2006 and the first quarter of 2007, respectively, that added operating costs and increased headcount.

While we intend to continue to invest in our strategic initiatives to support planned revenue growth and to fund revenue-generating initiatives, we remain focused on achieving our operating margin goals.

Cost of License Revenue

Our cost of license revenue consists of fixed and variable costs associated with reproducing and distributing software and documentation as well as royalties paid to third parties for technology embedded in or licensed with our software products. Cost of license revenue as a percentage of license revenue was 5% and 6% for the first quarter of 2007 and 2006, respectively. The increase in cost of license revenue in the first quarter of 2007 compared to the first quarter of 2006 is due primarily to higher amortization of purchased software attributable to recent acquisitions. Cost of license revenue as a percent of license revenue can vary depending on product mix sold and the effect of fixed and variable royalties and the level of amortization of acquired software intangible assets.

Cost of Service Revenue

Our cost of service revenue includes costs associated with training, customer support and consulting personnel, such as salaries and related costs; third-party subcontractor fees; costs associated with the release of maintenance updates (including related royalty costs); and facility costs. Cost of service revenue as a percentage of service revenue was 44% in both the first quarter of 2007 and 2006. Service margins can vary based on the product mix sold in the period. Service-related headcount increased to 1,320 at December 30, 2006 from 1,291 at September 30, 2006 and 1,130 at December 31, 2005. Total salaries, commissions, benefits and travel costs were \$6.1 million higher in the first quarter of 2007 compared to the first quarter of 2006 due to planned increases in our services delivery capacity. The cost of third-party consulting services was \$1.9 million higher in the first quarter of 2007 compared to the first quarter of 2006, due to the use of such services in support of increases in consulting and training service revenue.

Sales and Marketing

Our sales and marketing expenses primarily include salaries and benefits, sales commissions, advertising and marketing programs, travel and facility costs. Sales and marketing expenses as a percentage of total revenue were 31% and 33% for the first quarter of 2007 and 2006, respectively. Sales and marketing headcount increased to 1,160 at December 30, 2006 from 1,145 at September 30, 2006 and 1,101 at December 31, 2005. As a result of increases in headcount primarily due to acquisitions and higher commissions due to revenue growth, our salaries and benefit costs, sales commissions and travel expenses were higher by an aggregate of \$4.8 million in the first quarter of 2007 compared to the first quarter of 2006.

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Our research and development expenses consist principally of salaries and benefits, costs of computer equipment and facility expenses. Major research and development activities include developing new releases of our software that work together in a more integrated fashion and that include functionality enhancements. Research and development expenses as a percentage of total revenue were 17% and 18% in the first quarter of 2007 and 2006, respectively.

Research and development headcount increased to 1,500 at December 30, 2006 from 1,437 at September 30, 2006 and 1,287 at December 31, 2005. As a result of these increases in headcount, total salaries, benefits and travel costs were higher in the first quarter of 2007 compared to the first quarter of 2006 by an aggregate of \$3.3 million.

General and Administrative

Our general and administrative expenses include the costs of our corporate, finance, information technology, human resources, legal and administrative functions as well as bad debt expense. General and administrative expenses as a percentage of total revenue were 9% and 10% in the first quarter of 2007 and 2006, respectively. General and administrative headcount was 420 at December 30, 2006 and September 30, 2006, up from 391 at December 31, 2005. Total salaries, benefits and travel costs were higher in the first quarter of 2007 compared to the first quarter of 2006 by an aggregate of \$1.5 million. General and administrative expenses also include costs associated with outside professional services, including accounting and legal fees. The first quarter of 2006 includes higher costs for outside professional services incurred in connection with our investigation in the Asia-Pacific region described in our 2005 Annual Report on Form 10-K.

Amortization of Acquired Intangible Assets

These costs represent the amortization of acquired intangible assets. The increase in expense in the first quarter of 2007 compared to the first quarter of 2006 was due to amortization of intangible assets resulting from the Mathsoft and ITEDO acquisitions completed in the third quarter of 2006 and the first quarter of 2007, respectively.

Our acquisition of Mathsoft in the third quarter of 2006 resulted in an increase in acquired intangible assets of \$25.6 million and goodwill of \$42.0 million. Acquired intangible assets consisted of \$13.9 million of customer relationship intangibles, \$10.3 million of purchased software, and \$1.4 million of trademarks and distributor networks, each of which are being amortized over estimated useful lives of 7 to 10 years, 5 years and 5 years, respectively.

Our acquisition of ITEDO in the first quarter of 2007 preliminarily resulted in an increase in acquired intangible assets of \$5.6 million and goodwill of \$11.8 million. Acquired intangible assets consisted of purchased software of \$4.7 million, customer relationships of \$0.7 million, and other intangible assets of \$0.2 million, which are being amortized over estimated useful lives of 4 to 10 years.

Other Income (Expense), net

Other income (expense), net includes interest income, interest expense, costs of hedging contracts, certain realized and unrealized foreign currency transaction gains or losses, charges incurred in connection with obtaining corporate and customer contract financing, and exchange gains or losses resulting from the required period-end currency remeasurement of the financial statements of our subsidiaries that use the U.S. dollar as their functional currency. A large portion of our revenue and expenses are transacted in foreign currencies. To reduce our exposure to fluctuations in foreign exchange rates, we engage in hedging transactions involving the use of foreign currency forward contracts, primarily in the Euro and Asian currencies. Other income (expense), net was \$0.8 million and \$1.1 million for the first quarter of 2007 and 2006, respectively. The decrease in other income (expense), net in the first quarter of 2007 is due primarily to higher foreign currency transaction losses, partially offset by higher interest income.

Table of Contents*Income Taxes*

In the first quarter of 2007, our effective tax rate was 30% on pre-tax income of \$21.8 million compared to 39% in the first quarter of 2006 on pre-tax income of \$12.2 million. In the first quarter of 2007, our effective tax rate was lower than the statutory federal income tax rate of 35% due primarily to our use of net operating loss carryforwards (NOLs) to offset our U.S. taxable income (which reduced the valuation allowance we had previously recorded against those NOLs) and to taxes owed in foreign jurisdictions at rates lower than the U.S. statutory tax rate, partially offset by the impact of losses in foreign jurisdictions that could not be benefited. In the first quarter of 2006, our effective tax rate was higher than the statutory federal income tax rate of 35% due primarily to losses in foreign jurisdictions that could not be benefited, partially offset by our use of NOLs to offset our U.S. taxable income (which reduced the valuation allowance we had previously recorded against those NOLs) and to taxes owed in foreign jurisdictions at rates lower than the U.S. statutory tax rate.

In 2002, we recorded a full valuation allowance to completely reserve against our deferred tax assets (which consist primarily of operating loss carryforwards) due to the uncertainty of their realization. As of the end of the first quarter of 2007, a full valuation allowance was still recorded against remaining deferred tax assets in the U.S. and certain foreign jurisdictions. While we have realized consolidated operating profits over the past three years and in the first quarter of 2007, we have only recently begun to show consistent profitability in the U.S., and as recently as the fourth quarter of 2005, our U.S. legal entities incurred a taxable loss, due principally to the tax expense associated with the grant and vesting of restricted stock units and our employee stock option exchange. Accordingly, we have not yet concluded that realization of all of our deferred tax assets in the future is more likely than not.

Significant management judgment is required to determine when the realization of our deferred tax assets in the future is considered more likely than not. If and when we conclude that realization is more likely than not, we will record a reduction to our valuation allowance that will result in an increase to net income and adjustments to goodwill, accumulated other comprehensive loss, and additional paid-in capital in the period such determination is made.

Our future effective tax rate may be materially impacted by the amount of income taxes associated with our foreign earnings, which are taxed at rates different from the U.S. federal statutory rate, as well as the timing and extent of the realization of deferred tax assets and changes in the tax law. Further, our tax rate may fluctuate within a fiscal year, including from quarter to quarter, due to items arising from discrete events, including settlements of tax audits and assessments; the resolution or identification of tax position uncertainties; and acquisitions of other companies.

Liquidity and Capital Resources

| | December 30, 2006 | December 31, 2005 |
|---|----------------------------------|----------------------------------|
| | (in thousands) | |
| Cash and cash equivalents | \$ 147,341 | \$ 167,152 |
| Amounts below are for the three months ended: | | |
| Cash used by operating activities | \$ (16,338) | \$ (21,467) |
| Cash used by investing activities | (23,984) | (14,025) |
| Cash provided by financing activities | 2,212 | 636 |
| Cash used by operating activities included the following: | | |
| Cash disbursements for restructuring and other charges | (1,541) | (3,051) |

Cash and cash equivalents

We invest our cash with highly rated financial institutions and in diversified domestic and international money market mutual funds. The portfolio is invested in short-term instruments to ensure cash is available to meet requirements as needed. At December 30, 2006, cash and cash equivalents totaled \$147.3 million, down from \$183.4 million at September 30, 2006. The decrease in cash and cash equivalents in the first quarter of 2007 is due primarily to approximately \$17.6 million paid for acquisitions, primarily ITEDO; the use of \$16.3 million for operations, including amounts paid in the first quarter for fiscal 2006 commissions and bonuses accrued as of September 30, 2006; and the

use of \$6.3 million for additions to property and equipment.

Cash used by operating activities

Cash used by operating activities was \$16.3 million in the first quarter of 2007 compared to cash used by operating activities of \$21.5 million in the first quarter of 2006. This change was due primarily to higher net income in the first quarter of 2007 compared to the first quarter of 2006. In addition, cash used by operating activities in the first

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quarter of 2006 includes a cash contribution to our U.S. defined benefit pension plan of \$4.2 million. The improvement in cash used by operating activities was partially offset by higher accounts receivable at the end of the first quarter of 2007. Days sales outstanding increased to 80 days as of the end of the first quarter of 2007 compared to 73 days as of the end of the first quarter of 2006, primarily due to several customer orders received in the fourth quarter of 2006 for which payment is not due until the second quarter of 2007. We expect days sales outstanding to decrease by the end of the second quarter of 2007.

Cash used by investing activities

Cash used by investing activities was \$24.0 million in the first quarter of 2007 compared to \$14.0 million in the first quarter of 2006. The increase in cash used by investing activities in the first quarter of 2007 is primarily due to disbursements for acquisitions of \$17.6 million in the first quarter of 2007 compared to \$10.7 million in the first quarter of 2006. During the first quarter of 2007, we paid approximately \$16.7 million for the ITEDO acquisition. In addition, cash used for additions to property and equipment was \$6.3 million in the first quarter of 2007 compared to \$3.4 million in the first quarter of 2006. Our expenditures for property and equipment consist primarily of computer equipment, software, office equipment and facility improvements.

Cash provided by financing activities

Cash provided by financing activities was \$2.2 million and \$0.6 million in the first quarter of 2007 and 2006, respectively. The increase in 2007 compared to 2006 is primarily due to higher proceeds from the issuance of common stock under employee stock plans, which were \$7.8 million in the first quarter of 2007 compared to \$0.8 million in the first quarter of 2006, partially offset by \$5.5 million of cash we used to pay employee withholding taxes related to restricted stock units that vested during the first quarter of 2007 in lieu of issuing shares to employees with respect to those awards.

Credit Facility

On February 21, 2006, we entered into a multi-currency bank revolving credit facility. The credit facility consists of a \$230 million revolving credit facility, which may be increased by up to an additional \$150 million if the existing or additional lenders are willing to make such increased commitments. The credit facility expires on February 20, 2011, when all amounts will be due and payable in full. We expect to use the credit facility for general corporate purposes, including acquisitions of businesses. We have not borrowed any funds under the credit facility to date.

The credit facility limits our and our subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; pay dividends and make other distributions; make investments and enter into joint ventures; dispose of assets; and engage in transactions with affiliates, except on an arms-length basis. Under the credit facility, we and our material domestic subsidiaries may not invest cash or property in, or loan cash to, our foreign subsidiaries in aggregate amounts exceeding \$25 million for any purpose and an additional \$50 million for acquisitions of businesses. In addition, under the credit facility, we and our subsidiaries must maintain specified leverage and fixed-charge ratios. Any failure to comply with the financial or operating covenants of the credit facility would not only prevent us from being able to borrow additional funds, but would also constitute a default, resulting in, among other things, the amounts outstanding, including all accrued interest and unpaid fees, becoming immediately due and payable. We were in compliance with all financial and operating covenants of the credit facility as of December 30, 2006.

Share Repurchase Authorization

In September 1998, our Board of Directors authorized the repurchase of up to 8.0 million shares of our common stock and in July 2000 increased the shares authorized for repurchase to 16.0 million. We have not made any repurchases since 2003. Since 1998, we have repurchased, at a cost of \$366.8 million, a total of 12.5 million shares of the 16.0 million shares authorized. Although we have made no recent repurchases under the authorization, we periodically consider repurchasing shares. If we were to repurchase shares, it would reduce our cash balances.

Expectations for Fiscal 2007

We believe that existing cash and cash equivalents together with cash we expect to generate from operations will be sufficient to meet our working capital and capital expenditure requirements through at least the next twelve months.

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During 2007, we expect to make cash disbursements estimated at \$8 million for restructuring charges incurred in 2006 and prior periods and \$2 million for costs associated with the execution of our acquisition integration plans. Capital expenditures for 2007 are currently anticipated to be approximately \$20 million.

Although we expect positive operating cash flow in 2007, our cash balances decreased as expected at the end of the first quarter, primarily due to our acquisition of ITEDO and the payment of commissions and bonuses for 2006 during the quarter. On a seasonal basis, our cash balance is typically lowest in our first quarter.

We have evaluated, and expect to continue to evaluate, possible strategic transactions on an ongoing basis and at any given time may be engaged in discussions or negotiations with respect to possible strategic transactions. Our cash position could be reduced and we may incur debt obligations to the extent we complete any significant transactions.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are set forth under the heading *Critical Accounting Policies and Estimates* in Part II, Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2006 Annual Report on Form 10-K. There have been no changes to these policies and no significant changes to these estimates since September 30, 2006.

New Accounting Pronouncements

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). For fiscal years ending after December 15, 2006, SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan), generally measured as the difference between plan assets at fair value and the projected benefit obligation, as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also generally requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. In addition, SFAS 158 requires disclosure in the notes to financial statements of additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. Upon initial application of SFAS 158 and subsequently, an employer should continue to apply the provisions in SFAS 87, 88 and 106 in measuring plan assets and benefit obligations as of the date of its statement of financial position and in determining the amount of net periodic benefit cost. As our significant defined benefit pension plans are frozen and the accumulated benefit obligation equals the projected benefit obligation, we have already recorded in other long-term liabilities and accumulated other comprehensive income the minimum pension liability. As such, the adoption of SFAS 158 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure relative to uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption encouraged. We will adopt FIN 48 in fiscal 2008. We are currently evaluating whether or not the adoption of FIN 48 will have a material effect on our consolidated financial position, results of operations or cash flows.

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Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe the adoption of SFAS 157 in fiscal 2009 will have a material effect on our consolidated financial position, results of operations or cash flows.

Quantifying Financial Statement Misstatements

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108) regarding the process of quantifying financial statement misstatements. SAB 108 states that registrants should use both a balance sheet approach and an income statement approach when quantifying and evaluating materiality of a misstatement. The interpretations in SAB 108 contain guidance on correcting errors under the dual approach as well as provide transition guidance for correcting errors. This interpretation does not change the requirements within SFAS 154, *Accounting Changes and Error Corrections*, for the correction of an error in financial statements. SAB 108 is effective for financial statements covering the first fiscal year ending after November 15, 2006. Our adoption of SAB 108 in the first quarter of 2007 did not have a material effect on our financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Effectiveness of Disclosure Controls and Procedures

Our management maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), as appropriate, to allow for timely decisions regarding required disclosure.

We, under the supervision and with the participation of our management, including our principal executive and principal financial officers, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 30, 2006 in connection with the filing of the Original Form 10-Q. Based on that evaluation, we concluded at that time that our disclosure controls and procedures were effective.

Subsequent to the evaluation made in connection with the filing of the Original Form 10-Q, and in connection with the restatement of our prior period financial statements described in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q/A and the filing of this Form 10-Q/A, we, under the supervision and with the participation of our management, including our principal executive and principal financial officers, re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures and concluded that, because the material weakness in our internal control over financial reporting described below existed at that time, our disclosure controls and procedures were not effective as of December 30, 2006.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Subsequent to the filing of the Original Form 10-Q, we identified a material weakness in our internal control over financial reporting in that we did not maintain effective controls over the accounting for income taxes, including the determination and reporting of accrued income taxes, deferred taxes and the related income tax provision.

Specifically, we did not have adequate personnel to enable us to properly consider and apply generally accepted accounting principles for taxes, review and monitor the accuracy and completeness of the components of the income tax provision calculations and the related deferred taxes and accrued income taxes, ensure that the rationale for certain tax positions was appropriate, and ensure that effective oversight of the work performed by our outside tax advisors

was exercised. This material weakness resulted in the restatement of our unaudited interim consolidated financial statements as of and for the period ended December 30, 2006. In addition, until remediated, this material weakness could result in a misstatement in the tax-related accounts described above that would result in a material misstatement to our interim or annual consolidated financial statements and disclosures that would not be prevented or detected. Notwithstanding the existence of this material weakness, we have concluded that the consolidated financial statements in this Form 10-Q/A fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Remediation Initiatives

Our management is in the process of actively addressing and remediating the material weakness in internal control over financial reporting described above. During 2008, we will undertake the following actions to remediate the material weakness identified:

Hire additional personnel and retain professional advisors trained and experienced in income tax accounting;

Re-evaluate the design of income tax accounting processes and controls and implement new and improved processes and controls, if warranted; and

Increase the level of review and discussion of significant tax matters and supporting documentation with senior finance management.

As part of our 2008 assessment of internal control over financial reporting, our management will conduct sufficient testing and evaluation of the controls to be implemented as part of this remediation plan to ascertain that they operate effectively.

Changes in Internal Control over Financial Reporting

As a result of notice that Toshiba Corporation of Japan considered certain prior purchases of our products and services to have been made by a Toshiba employee without proper authorization, we made a change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. This change was to implement additional order confirmation procedures with Toshiba Corporation to confirm the arrangements underlying any new transactions completed with that customer.

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PART II OTHER INFORMATION

ITEM 6. EXHIBITS

- 31.1 Certification of the Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a).
- 31.2 Certification of the Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a).
- 32* Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.

* Indicates that the exhibit is being furnished with this report and is not filed as a part of it.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Parametric Technology Corporation

By: /s/ Cornelius F. Moses, III
Cornelius F. Moses, III
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: December 11, 2007

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