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2005



Day Software Report for the First Half of Fiscal Year 2005

Results in Detail

Second Quarter

Revenues for the second quarter of 2005 amounted to CHF 3.6 million, as compared to CHF 3.7 million for the second quarter of 2004. License revenues for the second quarter of 2005 amounted to CHF 1.4 million or 39% of total revenues, as compared to CHF 1.6 million for the second quarter of 2004 or 43% of total revenues. Maintenance revenues for the second quarter of 2005 increased 22% to CHF 1.1 million, as compared to CHF 0.9 million for the second quarter of 2004 as Day Software (the "Company") continues to grow its customer base. Service revenues, excluding maintenance, for the second quarter of 2005 decreased 8% to CHF 1.1 million, as compared to CHF 1.2 million for the second quarter of 2004.

In Europe, Day generated CHF 2.3 million in revenues in the second quarter of 2005. In the United States, Day generated CHF 1.3 million in revenues in the second quarter of 2005, accounting for 36% of revenues in this period. The United States and the United Kingdom were Day's largest contributors of revenues in the second quarter of 2005. Day's subsidiary in the United Kingdom, MarketingNet, contributed CHF 0.5 million of revenues for the second quarter of 2005.

Revenues for the second quarter of 2005 decreased 12% to CHF 3.6 million, as compared to CHF 4.1 million for first quarter of 2005. License revenues for the second quarter of 2005 decreased 26% to CHF 1.4 million, as compared to CHF 1.9 million for the first quarter of 2005. This decrease is due to two significant contracts that closed in the first quarter of 2005. Maintenance revenues for the second quarter of 2005 increased 10% to CHF 1.1 million, as compared to CHF 1.0 million for the first quarter of 2005. Service revenues, excluding maintenance, for the second quarter of 2005 decreased 8% to CHF 1.1 million, as compared to CHF 1.2 million for the first quarter of 2005.

Gross profit for the second quarter of 2005 increased 4% to CHF 2.7 million, as compared to CHF 2.6 million for the second quarter of 2004 and decreased 10% from CHF 3.0 million for the first quarter of 2005. The gross profit margin for the second quarter of 2005 increased to 75%, as compared to 70% in the second quarter of 2004 and 73% in the first quarter of 2005. The increase in gross profit margin for the second quarter of 2005 as compared to the second quarter of 2004 and the first quarter of 2005 is primarily due to the increase in maintenance revenues.

Operating expenses for the second quarter of 2005 decreased 23% to CHF 2.7 million, as compared to CHF 3.6 million for the second quarter of 2004. Research and development expenses decreased 43% due to the capitalization of CHF 0.6 million of costs incurred on the Company's new content infrastructure product line CRX after technological feasibility for the product was established during the first quarter of 2005 but prior to the product availability for commercial sale. Sales and marketing expenses decreased 17%. General and administrative expenses decreased 20% due to some nonrecurring expenses in the second quarter of 2004.

Compared to the first quarter of 2005, operating expenses for the second quarter of 2005 decreased 10% to CHF 2.7 million from CHF 3.0 million.

Net income for the second quarter of 2005 was TCHF 38, as compared to a net loss of TCHF 940 for the second quarter of 2004 and net income of TCHF 120 for the first quarter of 2005. Basic earnings per share was CHF 0.03 for the second quarter of 2005, as compared to basic loss per share of CHF 0.78 for the second quarter of 2004 and basic earnings per share of CHF 0.10 for the first quarter of 2005. Dilutive earnings per share was CHF 0.03 for the second quarter of 2005, as compared to dilutive loss per share of CHF 0.78 for the second quarter of 2004 and dilutive earnings per share of CHF 0.09 for the first quarter of 2005.

First Half

Revenues for the first half of 2005 amounted to CHF 7.8 million, as compared to CHF 7.4 million for the first half of 2004. License revenues for the first half of 2005 amounted to CHF 3.3 million or 42% of total revenues, as compared to CHF 3.0 million for the first half of 2004 or 41% of total revenues. Maintenance revenues for the first half of 2005 increased 22% to CHF 2.2 million, as compared to CHF 1.8 million for the first half of 2004 as Day Software (the "Company") continues to grow its customer base. Service revenues, excluding maintenance, for the second half of 2005 decreased 12% to CHF 2.3 million, as compared to CHF 2.6 million for the second half of 2004.

In Europe, Day generated CHF 4.6 million in revenues in the first half of 2005. In the United States, Day generated CHF 3.1 million in revenues in the first half of 2005, accounting for 40% of revenues in this period. Asia Pacific accounted for the remaining revenues. The United States and the United Kingdom were Day's largest contributors of revenues in the first half of 2005. Day's subsidiary in the United Kingdom, MarketingNet, contributed CHF 0.8 million of revenues for the first half of 2005.

Gross profit for the first half of 2005 increased 9% to CHF 5.8 million, as compared to CHF 5.3 million for the first half of 2004. The gross profit margin for the first half of 2005 increased to 74%, as compared to 72% in the first half of 2004. The increase in gross profit margin for the first half of 2005 as compared to the first half of 2004 is primarily due to the increase in license and maintenance revenues.

Operating expenses for the first half of 2005 decreased 17% to CHF 5.7 million, as compared to CHF 6.9 million for the first half of 2004. Research and development expenses decreased 40% due to the capitalization of CHF 1.0 million of costs incurred on the Company's new content infrastructure product line CRX after technological feasibility for the product was established during the first quarter of 2005 but prior to the product availability for commercial sale. Sales and marketing expenses decreased 9%. General and administrative expenses decreased 11% due to some nonrecurring expenses in the first half of 2004.

As of June 30, 2005, cash and cash equivalents amounted to CHF 5.2 million, up from CHF 4.5 million as of December 31, 2004. Cash increase is primarily due to net proceeds received from the issuance of additional share capital in June 2005. Accounts receivable and unbilled receivables increased to CHF 4.7 million at June 30, 2005 compared to CHF 2.8 million at December 31, 2004. Deferred revenues increased to CHF 3.2 million at June 30, 2005 compared to CHF 2.2 million at December 31, 2004. Days-sales outstanding decreased to 71 days in the second quarter of 2005 from 90 days in the first quarter of 2005.

New Product Line

In June Day Software successfully released the new product line Content Repository Extreme CRX. Day CRX provides an open, standards-based infrastructure for integrating business applications with any structured or unstructured content in an enterprise.

Day CRX is the first content repository on the market to offer complete support for the new standard for content management JSR 170. Day Software has initiated the standardization of content repositories in 2002 and has since then led an industry-wide expert group that developed the standard. JSR 170 has been officially released in June 2005 and is supported by a wide group of industry leaders such as SUN, BEA, IBM and Oracle.

Employees

Total headcount as of June 30, 2005 and 2004 was 80 and 81 full time employees, respectively. Headcount as of June 30, 2005 was allocated as follows: professional services 17%, research and development 26%, sales and marketing 24%, general and administration 14% and MarketingNet 19%.

Consolidated Balance Sheets

(in thousands CHF)
(unaudited)

June 30,
2005

December 31,
2004

ASSETS

Current assets

Cash and cash equivalents	5,171	4,500
Accounts receivable, net	2,885	2,638
Unbilled receivables	1,810	155
Other receivables	36	424
Prepaid expenses	538	228
Total current assets	10,440	7,945

Non-current assets

Property and equipment, net	185	603
Capitalized software development costs	1,034	-
Investments	267	91
Goodwill and intangible assets, net	3,418	3,511
Other assets	605	333
Total non-current assets	5,509	4,538

TOTAL ASSETS

15,949

12,483

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	391	400
Deferred revenues	3,154	2,224
Other current liabilities	288	181
Accrued liabilities	1,606	1,597
Total current liabilities	5,439	4,402

Commitments and contingencies

Shareholders' equity

Share capital	13,449	12,097
Treasury shares (10,794 shares at June 30, 2005 and 9,762 shares at December 31, 2004, at cost)	(1,097)	(1,074)
Capital reserves	139,198	138,299
Accumulated deficit	(140,494)	(140,652)
Accumulated other comprehensive loss	(546)	(589)
Total shareholders' equity	10,510	8,081

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

15,949

12,483

Consolidated Statements of Operations

(in thousands CHF, except share information)

(unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Revenues				
Software licenses	3,338	3,007	1,434	1,583
Services	4,436	4,345	2,213	2,088
Total revenues	7,774	7,352	3,647	3,671
Cost of revenues				
Software licenses	1	15	-	10
Services	1,988	2,014	904	1,031
Total cost of revenues	1,989	2,029	904	1,041
Gross profit	5,785	5,323	2,743	2,630
Operating expenses				
Research and development	852	1,513	374	727
Sales and marketing	3,230	3,535	1,519	1,772
General and administrative	1,564	1,751	810	1,060
Amortization of intangible assets	93	93	46	46
Stock-based compensation	-	18	-	14
Income (Loss) from operations	46	(1,587)	(6)	(989)
Interest income	9	11	4	6
Interest expense	-	(3)	-	(2)
Foreign exchange gain (loss)	45	(25)	26	(23)
Other income	61	153	14	70
Income (Loss) before income taxes	161	(1,451)	38	(938)
Provision for income taxes	(3)	(4)	-	(2)
Net income (loss)	158	(1,455)	38	(940)
Other comprehensive income (loss)	40	4	26	(50)
Comprehensive income (loss)	198	(1,451)	64	(990)
Basic earnings (loss) per share	0.13	(1.23)	0.03	(0.78)
Dilutive earnings (loss) per share	0.12	(1.23)	0.03	(0.78)
Shares used in computing basic earnings (loss) per share	1,234,934	1,180,586	1,261,021	1,201,201
Shares used in computing dilutive earnings (loss) per share	1,334,961	1,180,586	1,361,048	1,201,201

Consolidated Statements of Cash Flows

(in thousands CHF)

(unaudited)

	Six Months Ended June 30,	
	2005	2004
Net income (loss)	158	(1,455)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation of fixed assets	436	558
Loss on fixed asset dispositions	-	10
Amortization of intangible assets	93	93
Net foreign currency exchange (gain) loss	(51)	24
Stock-based compensation	12	18
Stock received in exchange for software	(129)	(100)
Capitalized software development cost	(1,034)	-
Changes in operating assets and liabilities		
Accounts receivable	(136)	2,854
Unbilled receivables	(1,587)	(87)
Prepaid expenses and other current assets	92	(304)
Other assets	(217)	-
Accounts payable	(36)	118
Deferred revenues	751	(455)
Accrued liabilities	(31)	(368)
Other current liabilities	96	(433)
Net cash provided by (used in) operating activities	(1,583)	473
Cash flows from investing activities		
Purchases of equipment	(7)	(21)
Proceeds from sale of equipment	-	1
Net cash used in investing activities	(7)	(20)
Cash flows from financing activities		
Proceeds from stock option exercises	295	902
Net proceeds from issuance of share capital	1,997	-
Purchase of treasury shares	(625)	-
Proceeds from sale of treasury shares	549	-
Net cash provided by financing activities	2,216	902
Net increase in cash and cash equivalents	626	1,355
Foreign currency adjustment on cash	45	(27)
Cash and cash equivalents at beginning of period	4,500	5,344
Cash and cash equivalents at end of period	5,171	6,672

Consolidated Statements of Shareholders' Equity

(in thousands CHF, except share information)

(unaudited)

	Share Capital		Treasury Shares	Capital Reserves	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
Balances							
January 1, 2004	1,125,310	11,253	(1,074)	138,170	(135,139)	(599)	12,611
Proceeds from exercise							
of stock options	84,344	844	-	90	-	-	934
Stock-based compensation	-	-	-	39	-	-	39
Net loss	-	-	-	-	(5,513)	-	(5,513)
Foreign currency translation	-	-	-	-	-	10	10
Balances							
December 31, 2004	1,209,654	12,097	(1,074)	138,299	(140,652)	(589)	8,081
Proceeds from exercise							
of stock options	27,200	272	-	23	-	-	295
Net proceeds from issuance							
of share capital	108,000	1,080	60	857	-	-	1,997
Purchase of treasury shares	-	-	(625)	-	-	-	(625)
Proceeds from sale of							
treasury shares	-	-	542	7	-	-	549
Stock-based compensation	-	-	-	12	-	-	12
Net income	-	-	-	-	158	-	158
Foreign currency translation	-	-	-	-	-	43	43
Balances							
June 30, 2005	1,344,854	13,449	(1,097)	139,198	(140,494)	(546)	10,510

Notes to Consolidated Interim Financial Statements for the Six Months Ended June 30, 2005

(in thousands of CHF, except share information)
(unaudited)

Note 1 – Organization and History

The Company

Day Software Holding AG (collectively with its subsidiaries, the “Company”) was formed on October 29, 1999, as a stock corporation under the laws of Switzerland. The Company is a provider of global content management and content infrastructure software. The Company’s technology Communiqué offers a comprehensive, rapidly deployable framework to unify and manage all digital business data, systems, applications and processes through the web. Communiqué’s content-centric architecture, and its innovative ContentBus, turns the entire business into a virtual repository, bringing together content from any system, regardless of location, language or platform. The Company’s products and services are marketed throughout Europe, the Americas and Asia Pacific.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). Certain amounts reported in previous years have been reclassified to conform to the 2005 presentation.

These unaudited consolidated interim financial statements should be read in conjunction with the audited financial statements and notes related thereto for the period ended December 31, 2004, included in the Company’s Annual Report. The unaudited consolidated interim financial statements include all adjustments necessary to present fairly the Company’s consolidated financial position as of June 30, 2005, notes explaining any significant changes that have occurred since December 31, 2004 and the consolidated results of its operations and cash flows for the six months ended June 30, 2005. The consolidated results of such interim periods are not necessarily indicative of the results to be achieved for the period ended December 31, 2005.

Principles of Consolidation

The accompanying unaudited consolidated interim financial statements include the accounts of Day Software Holding AG and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 3 – Shareholders’ Equity

In June 2005, Day issued 108,000 shares of authorized capital through MAG Capital, LLC. Net proceeds from the transaction totaled TCHF 1,997. In connection with the transaction, the Company incurred TCHF 392 of costs that have been recorded as a reduction in capital reserves. These transaction costs include TCHF 60 of costs to acquire 3,000 treasury shares at a price of CHF 20 per share from the Company’s Chief Executive Officer.

Note 4 – Investments

The Company has an equity investment totaling TCHF 164 in common stock and TCHF 103 in preferred stock of a non-publicly traded company (“investee”). The Company’s Chief Financial Officer was a member of the Board of Directors of the investee company when these investments were transacted. The common stock was acquired in March of 2005 in exchange for software license and maintenance sold and is carried at cost which was determined by reference to the value of the software license and maintenance exchanged. The preferred stock was acquired in 2004 in exchange for software license and maintenance sold and is carried at cost which was determined by reference to recent private-placement sales of the investee’s common stock. The carrying value of the investment was TCHF 267 as of June 30, 2005.

Note 5 – Capitalized Software Development Costs

SFAS No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,” requires development costs incurred in the research and development of new software products to be sold or marketed to be expensed as incurred until technological feasibility in the form of a working model has been established at which time such costs are capitalized, subject to recoverability, until the software products are available for sale. The Company established technological feasibility with its new content infrastructure product line CRX upon completion of a working model in the first quarter of 2005. Accordingly, software costs capitalized during the six months ended June 30, 2005 totaled TCHF 1,034. Monthly amortization of capitalized software development costs beginning in July 2005 will be equal to the greater of the amount calculated by the straight-line method over the estimated life of the product or the amount calculated by using the ratio that current gross revenues bear to total estimated gross revenues of the product.

Note 6 – Earning (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share calculated for the six months ended June 30, 2005 is computed by dividing net income available to shareholders by the weighted average number of shares outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method. Potentially dilutive common shares include outstanding stock options. Diluted loss per share calculated for the six months ended June 30, 2004 is the same as basic loss per share as the effect of the assumed exercise of common stock equivalents is anti-dilutive due to the Company’s net losses for the period. Common stock equivalents totaling 29,533 and 221,662 have been excluded from the calculation of the weighed average shares outstanding for the six months ended June 30, 2005 and 2004, respectively, as the effects are anti-dilutive.

Note 7 – Stock-based Compensation

The Company applies the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (“APB No. 25”), and related interpretations. Under this method, compensation expense is recorded only if the current market price of the underlying stock exceeds the exercise price or the exercise price is not fixed at the date of grant. Such compensation expense, if any, is recognized over the service period to which the option relates. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (“SFAS No. 123”) and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (“SFAS No. 148”), an amendment to SFAS No. 123, established accounting and disclosure requirements using a fair value based method of accounting for stock-based compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123, as amended.

The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value based method to all outstanding and unvested awards in the six months ended June 30, 2005 and 2004:

	2005	2004
Net Income (Loss), as reported	158	(1,455)
Less: Total stock-based compensation expense determined under fair value based method, net of related tax effects under fair value based method, net of related tax effects	(589)	(424)
Net loss, pro forma	<u>(431)</u>	<u>(1,879)</u>
Basic Earnings (Loss) per share, as reported	0.13	(1.23)
Basic Loss per share, pro forma	(0.35)	(1.59)
Dilutive Earnings (Loss) per share, as reported	0.12	(1.23)
Dilutive Loss per share, pro forma	(0.32)	(1.59)

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model as prescribed by SFAS No. 123 using the following assumptions for options granted in the six months ended June 30, 2005 and 2004:

	2005	2004
Risk free interest rate	2.25%	2.25%
Expected life (years)	5	5
Expected volatility	42% - 86%	86%
Dividend yield	-	-

Note 8 – Segment Information

The Company operates predominantly in a single industry segment as a provider of enterprise software and related services. The Company's reportable operating segments are based on geographic location, which are Europe, the Americas and Asia Pacific. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intergeographic revenues primarily represent intercompany revenues which are accounted for based on established sales prices between the related companies and are eliminated in consolidation.

Geographical revenue information is based on the origin of the sales. Segments by geographic area of origin are as follows for the six months ended June 30, 2005 and 2004:

	2005	2004
Revenues		
Europe	4,675	5,423
Americas	3,057	1,680
Asia Pacific	78	254
Elimination of intergeographic revenues	(36)	(5)
Total revenues	<u>7,774</u>	<u>7,352</u>
Net Income (Loss)		
Europe	(1,059)	(1,334)
Americas	1,217	(121)
Total net income (loss)	<u>158</u>	<u>(1,455)</u>
Assets		
Europe	12,928	15,138
Americas	3,021	1,987
Total assets	<u>15,949</u>	<u>17,125</u>

About Day (www.day.com)

Day is a leading provider of integrated content, portal and digital asset management software. Day's technology Communiqué offers a comprehensive, rapidly deployable framework to unify and manage all digital business data, systems, applications and processes through the web. Communiqué's content-centric architecture, and its innovative ContentBus, turns the entire business into a virtual repository bringing together content from any system, regardless of location, language or platform.

Day is an international company, founded in 1993, and listed on the SWX Swiss Exchange (SWX:DAYN) since April 2000. Day's customers are some of the largest global corporations and include Audi, DaimlerChrysler, Deutsche Post World Net, Intercontinental Hotels Group, McDonald's, UBS and Volkswagen.

Forward-looking Statements

This report may contain forward-looking statements regarding future events or the future performance of Day Software Holding AG and its subsidiaries (the "Company"). Words such as "expects," "plans," "believes," "may," "will," and variations of these words or similar expressions are intended to identify forward-looking statements. These statements speak only as of the date hereof. Such information is subject to change, and the Company will not necessarily inform you of such changes. Actual events or results, of course, could differ materially and adversely from those expressed in any forward-looking statement. There is currently no public trading market in the United States for the Company's stock, and the Company does not make filings (e.g., Forms 10-K and 10-Q) with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

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