

● Day

Annual Report 2008

Day Software Holding AG

2008 Annual Report

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Dear shareholders, customers
and partners:

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Investors around the world will remember 2008 as a year of unparalleled challenges. At Day it was a successful year. Despite the harsh economic climate we continued the growth of the company and initiated the next phase of expansion of Day Software.

The year at Day was characterized by two major events that will be the basis for our future success: In June we had the pleasure to welcome Erik Hansen, a highly experienced, internationally renowned industry-veteran, as the new CEO of our company. Mr. Hansen took over the helm with determination. He completed our leadership team with excellent new members and quickly built a solid foundation for additional growth by expanding the reach of our sales organization.

The second element to spur our future growth was the release of the latest version of our flagship product Communiqué 5 (CQ5) in the fall of 2008. Within weeks the product won broad overwhelming recognition throughout our industry and is today the leading solution in its category.

While we were strengthening the foundation of the future success of Day the economic climate around us continued to worsen dramatically. But despite the extremely challenging environment the company continued to grow its revenues. With these elements in place we have entered the new fiscal year with strong momentum and a unique prospect for driving even stronger growth in 2009.

Let us take a look at the events of 2008 in more detail: In the second half of 2008, Day took the strategic decision to prepare for the upcoming arrival of CQ5, a major new release under development for nearly three years that promised to be a game-changer in our industry. As part of this preparation, we added Richard Francis as our new Chief Financial Officer (CFO) to help drive a corporate restructuring and Kevin Cochrane as our new Chief Marketing Officer (CMO) to help drive the positioning, launch, and demand for CQ5.

Mr. Cochrane successfully positioned CQ5 as the market-leading WCM solution, generating significant sales growth in just the six short weeks between our November launch and the end of the year. In addition to both our new CFO and CMO, we also made strategic investments to drive expansion in core European markets. We added a new office in Milan, Italy and a new office in London, England led by our new Vice President U.K. and Northern Europe. In parallel we successfully drove the divestiture of our loss-making agency subsidiary in the U.K., MarketingNet Ltd., allowing Day to focus on building a strong U.K. operation and channel-driven sales model.

I am pleased with the new leadership team Mr. Hansen has managed to build in the second half of 2008 and the strong, immediate contribution they've made to Day's 2008 results.

For the year, Day grew revenues 11% over 2007, with a strong second half revenue growth of 17% driven by our strong new CQ5 release. We also grew cash by 12% in the year and brought the company back to non-GAAP profitability in the fourth quarter of 2008. As part of our operational restructuring to position Day for accelerated growth in 2009, we took a number of substantial accounting-related charges in the the fourth quarter of 2008 including charges related to the divestiture of MarketNet, Ltd.

In spite of a challenging macroeconomic environment that saw marked downturns in confidence and business infrastructure spending, we here at Day have seen strong activity across verticals and partner channels. In 2008 we added industry-leading customers in major key verticals such as CPG/Retail, Financial Services, Automotive, Higher Education, and the Public Sector.

New CPG/Retail customers include major CQ5-driven competitive wins at Williams-Sonoma, Sephora, and Nuskyn. Other clients include UBS, Fiducia, Intuit, Nissan North America, Nissan Europe, University of Phoenix, New York University, Villanova University, Wisconsin Dept. of Transportation, BCHydro, BWK, UNHCR, LaPoste. In addition to key brand name customers, we also built on our OEM success in 2008, leveraging the core content infrastructure technology CRX, to conclude a major new OEM agreement with Hewlett-Packard. This new OEM, for HP's Extream business unit, will leverage Day as the underlying platform for their content-enabled vertical application (CEVA) portfolio for Enterprise Document Automation, including industry-specific solutions for Correspondence, Marketing, and Publications.

Leveraging Day's technology, companies can optimize the marketing spend and drive new revenue at lower cost. We see momentum as companies look to invest in Day product to reduce costs and win new customers to emerge as market share leaders out of the downturn.

Much of our new-found momentum has been fueled by the incredible market recognition we've received with the release of CQ5. In the fourth quarter, we were first recognized by leading industry analyst Gartner as being a Visionary in their 2008 ECM Magic Quadrant report. Gartner specifically recognized Day for its strong technology, standards leadership, superior usability, and unique virtual repository architecture. We were also named to the EContent 100 and KMWorld 100 lists and received substantial positive media and analyst coverage of our CQ5 launch, including CMSWire, CMSWatch, Fierce Content Management, EContent, Gilbane, the 451 Group, the Butler Group, and many more.

Most significantly, to cap off the year, we got the greatest recognition of all: taking InfoWorld's 2009 Technology of the Year Award in the category Best Web CMS.

Without a doubt, Day has assumed a product leadership position in the industry. With a robust roadmap and continued investment in both sales and marketing the company is well positioned to strengthen its leadership position, gain additional market share and continue the growth of the company in 2009.

Along with Erik, I appreciate the support of our shareholders, customers, and partners as we invested in the business, restructured operations, and built new momentum with the introduction of CQ5. It has been an exciting year for us here at Day, and we look forward to continued success in 2009.

Sincerely,

A handwritten signature in blue ink, consisting of a large, sweeping arch followed by a smaller arch and a horizontal line with a crossbar.

Michael Moppert, Chairman

About Day

Products

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2008 was a momentous year for Day's products. Capping a multi-year product development effort, Day released its ground-breaking CQ5 platform, with a new back-end ECM content repository, CRX, and an overhauled version of our flagship product offering, CQ5 Web Content Management (WCM). Since November 2008, Day re-captured industry mindshare and product leadership, garnering accolades from key analyst and press and winning Infoworld's 2009 Technology of the Year award in the category "Best Web CMS". The momentum driven by the new release and press coverage is a testimony to marketing-leading technology Day has brought to market with its 2008 CQ5 platform. With key advancements in the areas of business-user productivity with our new drag-and-drop website publishing user experience, IT productivity with our new REST-based APIs, and enterprise agility and cost-consolidation with our new rapid deployment CRX content infrastructure and virtual repository, Day is well-positioned in 2009 to take advantages of the major market trends driving WCM and ECM purchase decisions in a recessionary market environment.

Standards & Open Source

2008 marked an important milestone for Day in the area of standards and open source. In 2008, Day began to successfully use its involvement in standards and open source as a strategic differentiator to drive mindshare with key opinion-makers in the press and analyst community and to drive new sales opportunities by leveraging current market interest in open source technologies. As a commercial enterprise software vendor with a strong commitment to advancing open standards and open source, Day is well positioned in 2009 to be seen as a safe, strategic enterprise software vendor who is both involved in driving new open source technologies but offering proven, commercially-licensed enterprise software products upon which organizations can run their core business operations.

As part of Day's continuing efforts in this area, 2008 also marked continued efforts to drive standardization in the ECM industry and to make Day's CRX content infrastructure a de facto standard for enterprise content repositories. In 2008, Day's CTO David Nüscheler continued to advance the updated version of the JSR-170 specification, JSR-283, and joined the CMIS working committee to drive a new industry standard to complement JSR-170 / JSR-283 for basic document management services interoperable across leading ECM platforms from Microsoft, to IBM, to OpenText, and others. Day's first efforts at a JCR-compatible reference implementation for the new CMIS document management standard was jointly developed with other members of the Apache Jackrabbit open source development community, a proof point of Day's ability to accelerate new technology advancements leveraging external contributors and Day's leadership in the Apache Software Foundation (ASF).

Customers

2008 saw continued growth of Day's enterprise customer base, with significant re-orders from existing global enterprise customers and key new wins in new target verticals. During the second half 2008, Day targeted key growth verticals, including CPG/Retail and Higher Education, and secured notable wins at Williams-Sonoma, Sephora, NuSkin, University of Phoenix, New York University, Villanova University, and City College of San Francisco. In addition, Day continued building on its strength in Automotive, winning Nissan North America and Nissan Europe along with notable reorders from Daimler and Volkswagen. Other major new wins include Fiducia and UBS in Financial Services, UNHCR, LaPoste, and Wisconsin Dept. of Transportation in Government, and PacifiCorp, BCHydro, BWK, Franke, and Intuit.

In October 2008, Day successfully hosted its annual Global Customer Summit, launching its award-winning CQ5 suite with early access customers Messe Frankfurt, City of Zurich, and Time, Inc. presenting their success stories with CQ5 to Day's global installed base. Day's successful hosting of its summit event in Basel to launch CQ5 was a catalyst for customer interest in CQ5 product updates and new CQ5 sales opportunities.

Management's Discussion & Analysis

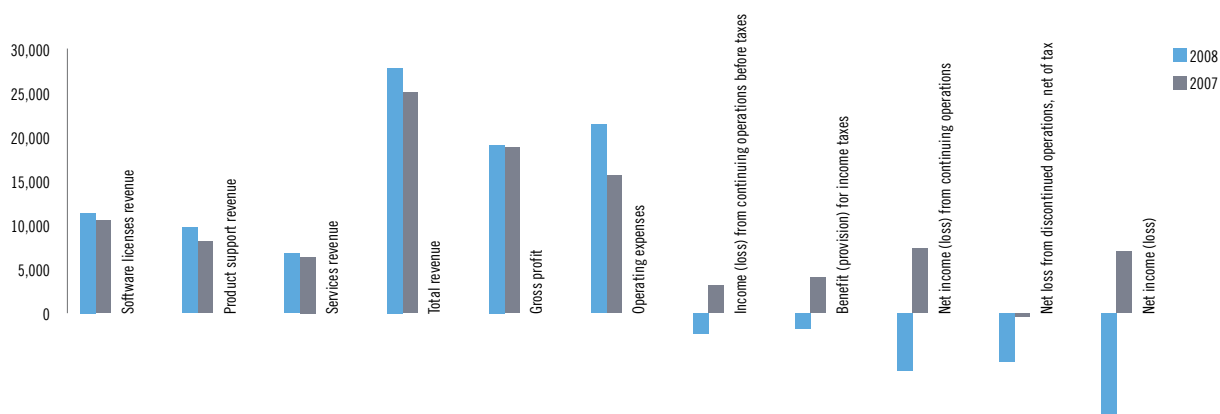
Management's Discussion and Analysis

(in thousands CHF, except share information)

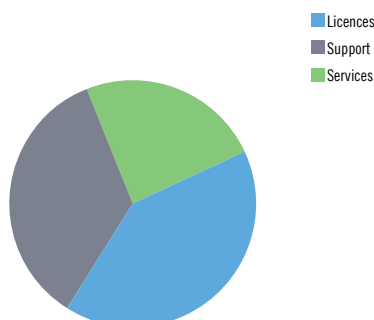
Financial Highlights

In thousands CHF	2008	2007
Software licenses revenue	11,347	10,526
Product support revenue	9,680	8,137
Services revenue	6,784	6,366
Total revenue	27,811	25,029
Gross profit	19,056	18,761
Operating expenses	21,377	15,590
Income (loss) from continuing operations before taxes	(2,321)	3,171
Benefit (provision) for income taxes	(1,807)	4,075
Net income (loss) from continuing operations	(6,511)	7,368
Net loss from discontinued operations, net of tax	(5,491)	(353)
Net income (loss)	(12,002)	7,015

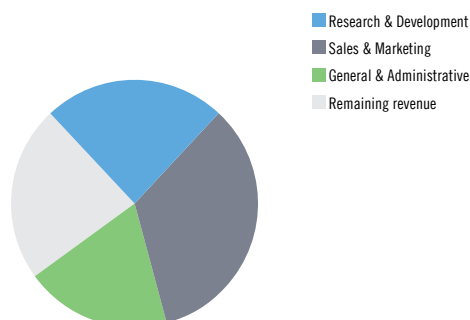
Financial Highlights



Company Revenues 2008



Operating Expenses 2008



Results of Operations

Company Revenue

	In thousands CHF		Percentage of total revenue	
	2008	2007	2008	2007
For the years ended December 31				
Software licenses revenue	11,347	10,526	41%	42%
Product support revenue	9,680	8,137	35%	33%
Services revenue	6,784	6,366	24%	25%
Total revenue	27,811	25,029	100%	100%

Gross Profit & Gross Profit Margin

	2008	2007
For the years ended December 31		
Gross Profit in thousands CHF	19,056	18,761
Gross Profit Margin%	69%	75%

Operating Expenses

	In thousands CHF		Percentage of total revenue	
	2008	2007	2008	2007
For the years ended December 31				
Research and development ("R&D")	6,776	4,902	24%	20%
Sales and marketing ("S&M")	9,409	6,629	34%	26%
General and administrative ("G&A")	5,192	4,059	19%	16%
Total operating expenses	21,377	15,590	77%	62%

Discontinued Operations

On December 31, 2008, the Company sold its wholly owned subsidiary, MarketingNet, a UK company active in the agency services business. The Company acquired MarketingNet in October 2000. This sale was part of the Company's efforts to refocus its UK operations on its core business and drive UK expansion through a channel-driven model. Net loss from discontinued operations, net of tax was TCHF 5,491 for the year ended December 31, 2008 which includes a TCHF 4,791 loss from sale of subsidiary and a TCHF 700 loss from operations of the subsidiary. Net loss from discontinued operation, net of tax was TCHF 353 for the year ended December 31, 2007. MarketingNet's results of operations for 2008 and 2007 have been reported as a component of discontinued operations for all years presented in the consolidated statements of operations and cash flows. MarketingNet's assets and liabilities as of December 31, 2007 have been reported in assets and liabilities from discontinued operations in the consolidated balance sheets.

Revenues

Total revenue increased TCHF 2,782 or 11% to TCHF 27,811 for the year ended December 31, 2008 from TCHF 25,029 in the prior year. Software license revenue increased TCHF 821 or 8.0% to TCHF 11,347 for the year ended December 31, 2008 from TCHF 10,526 in the prior year as a result of efforts to expand US sale force in 2008 and the release of Day's new "Communiqué 5 product suite release in Q4 2008. Product support revenue increased TCHF 1,543 or 19% to TCHF 9,680 for the year ended December 31, 2008 from TCHF 8,137 in the prior year due to the Company's growing customer base and consistent product support renewals. Services revenue increased TCHF 418 or 7% to TCHF 6,784 for the year ended December 31, 2008 from TCHF 6,366 in the prior year due to increase in service contracts as a result of increase in license contracts.

Day's revenue base continues to be geographically diverse. The Company has continued to generate most of its revenue in the United States, Germany, Switzerland and the United Kingdom. In 2008, the Company generated total revenues of TCHF 14,246 (51% of total revenues) in Europe and TCHF 13,565 (49% of total revenues) in the Americas and Asia Pacific. In 2007, the Company generated total revenues of TCHF 13,291 (53% of total revenues) in Europe and TCHF 11,738 (47% of total revenues) in the Americas and Asia Pacific. The amount of revenue generated in Asia Pacific was less than 1% for both 2008 and 2007.

The functional currencies of the Company's foreign subsidiaries are their respective local currencies as these are the currencies of the primary economic environment in which the subsidiaries operate. These currencies include the U.S. dollar, British Pound, the Euro and the Singapore Dollar. The financial statements of these foreign subsidiaries are translated into the Swiss Franc, the Company's reporting currency, to prepare the consolidated financial statements. The resulting foreign currency translation adjustments are included in other comprehensive income (loss). Changes in the exchange rates of these foreign currencies against the Swiss Franc will result in currency translation effects that could have a significant impact on the Company's consolidated financial statements. The Company does not currently hedge these foreign exchange risks with financial instruments. The Company will continue to be subject to these foreign currency translation effects as long as it continues to conduct business on a global basis.

If the 2008 revenue of the foreign subsidiaries had been translated into the Swiss Franc at the average exchange rates in effect for 2007, consolidated revenue would have been approximately TCHF 2,102 higher for 2008.

Gross Profit

Total gross profit increased TCHF 295 or 2% to TCHF 19,056 for the year ended December 31, 2008 from TCHF 18,761 in the prior year. The decrease in gross profit margin % from 2007 to 2008 was primarily due to the TCHF 1,635 write-down of capitalized software costs in 2008.

If the 2008 gross profit of the foreign subsidiaries had been translated into the Swiss Franc at the average exchange rates in effect for 2007, consolidated gross profit would have been approximately TCHF 1,162 higher for 2008.

Operating Expenses

Total operating expenses increased TCHF 5,787 or 37% to TCHF 21,377 for the year ended December 31, 2008 from TCHF 15,590 for the year ended December 31, 2007. R&D expenses increased TCHF 1,874 or 38% to TCHF 6,776 in 2008 from TCHF 4,902 in 2007 due to an increase in expenses related to new product development. S&M expenses increased TCHF 2,780 or 42% to TCHF 9,409 in 2008 from TCHF 6,629 in 2007 due to increase in sales related expenses associated with the increase in revenue and an increase in trade shows and other marketing activities. G&A expenses increased TCHF 1,133 or 28% to TCHF 5,192 in 2008 from TCHF 4,059 in 2007 due to increase in employees and infrastructure to support the company's growth.

If 2008 operating expenses of the foreign subsidiaries had been translated into the Swiss Franc at the average exchange rates in effect for 2007, consolidated operating expenses would have been approximately TCHF 1,183 higher for 2008.

Foreign Currency Transaction Losses

Foreign exchange gains and losses resulting from specific foreign currency transactions are included in the consolidated results of operations. Foreign exchange losses were TCHF 2,530 and TCHF 25 for the years ended December 31, 2008 and 2007, respectively.

The foreign exchange losses for 2008 include a TCHF 2,296 non-cash charge resulting from reclassification of foreign exchange losses on intercompany balances accumulated in other comprehensive income (loss) into current year consolidated results of operations as the settlement of these intercompany balances is now planned in the foreseeable future. The foreign exchange losses on these intercompany balances were due to the declining value of the U.S. dollar, Euro and British Pound against the Swiss Franc during 2008 and 2007. The settlement of these intercompany balances will eliminate future foreign exchange gains or losses related to these balances.

Other foreign exchange losses resulting from specific foreign currency transactions were due to the declining value of U.S. dollar, Euro and British Pound against the Swiss Franc during 2008.

Net Income (Loss)

Net loss from continuing operations was TCHF 6,511 for the year ended December 31, 2008 as compared to net income from continuing operations of TCHF 7,368 for the year ended December 31, 2007. Net loss from discontinued operations was TCHF 5,491 for the year ended December 31, 2008 as compared to TCHF 353 for the year ended December 31, 2007. Net loss was TCHF 12,002 for the year ended December 31, 2008 as compared to net income of TCHF 7,015 for the year ended December 31, 2007.

Liquidity and Capital Resources

As of December 31, 2008, cash and cash equivalents amounted to TCHF 12,814, up from TCHF 11,442 as of December 31, 2007.

Accounts receivable net, including unbilled receivables, as of December 31, 2008 amounted to TCHF 9,339, as compared to TCHF 9,330 at December 31, 2007. Average days-sales-outstanding, which exclude unbilled receivables, as of December 31, 2008 increased to 118 days, as compared to 107 days as of December 31, 2007.

Total current and non-current deferred tax assets decreased to TCHF 2,639 at December 31, 2008 from TCHF 4,311 as of December 31, 2007 due to the increase in the deferred tax assets valuation allowance during 2008.

Deferred revenue increased to TCHF 5,187 at December 31, 2008, as compared TCHF 4,198 as of December 31, 2007, respectively.

Accrued liabilities increased to TCHF 3,196 as of December 31, 2008, as compared to TCHF 2,262 as of December 31, 2007. The increase in accrued liabilities is primarily due to an increase in accrued commissions and other employee benefits at the end of December 31, 2008.

Employees

As of December 31, 2008, the Company had 115 employees, as compared to 116 employees as of December 31, 2007. As of December 31, 2008, the headcount was allocated as follows: 32% in professional services, 21% in sales and marketing, 12% in general and administrative and 35% in research and development.

Corporate Governance

Corporate Governance

Group Structure and Shareholdings

Group Structure

Day Software Holding AG, formerly Day Interactive Holding AG (the “Company” or “Day”), was formed on October 29, 1999, as a stock corporation under the laws of Switzerland. The Company is registered and has its principal offices in Basel (BS). Day shares are listed at the SIX Swiss Exchange: Valor 1047421 / ISIN: CH0010474218 / Symbol: DAYN. Day shares are also traded Over the Counter (OTC) in the form of American Depositary Receipts (ADR (Level 1); CUSIP: 23954P102 / U.S. ISIN: US23954P1021 / Symbol: DYIHY).

The Company, through its wholly owned subsidiaries, provides integrated content, portal and digital asset management 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. The Company’s products and services are marketed throughout Europe, the Americas and Asia Pacific.

The Company has no listed subsidiaries.

The capitalization of Day as of December 31, 2008 was TCHF 20,255. Capitalization was calculated taking the closing market stock price at December 31, 2008 multiplied by the number of shares outstanding at December 31, 2008.

Non-listed Subsidiaries

Subsidiary	Domicile	Functional Currency	Share Capital in Thousands	Ownership
Day Management AG	Basel, Switzerland	CHF	250	100%
Day Software AG	Basel, Switzerland	CHF	100	100%
Day Software GmbH	Munich, Germany	EUR	25	100%
Day Software, Inc.	United States	USD	420	100%
Day Software Ltd.	United Kingdom	GBP	2,800	100%
Day Interactive Singapore PTE Ltd.	Singapore	SGD	100	100%

Significant Shareholders

Shareholders owning shares and/or options to acquire shares in excess of 3% of total shares outstanding in the Company as of December 31, 2008

Name	Shares Owned	Shares Owned as a % of Total Shares Outstanding	Options	Options Owned as a % of Total Shares Outstanding
Michael Moppert	235,396	15.98%	17,648	1.20%
Chase Nominees Ltd.	125,859	8.54%	–	–
David Nüscherer	131,965	8.96%	10,800	0.73%
M. Steinemann, D. Steinemann, Forty7 AG (group)	98,500	6.69%	–	–
Mr. Ralf Sievers	70,978	4.82%	–	–
Chris Harano	–	–	66,057	4.48%
Erik Hansen	–	–	55,000	3.73%

Cross-shareholding

No cross-shareholdings exist between Day and other public limited companies.

Capital Structure

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Share Capital

As of December 31, 2008, Day's share capital is CHF 14,731,230 fully paid up and divided into 1,473,123 registered shares of CHF 10.00 nominal value each.

As of December 31, 2008, the Company had authorized capital of CHF 7,185,000 divided into 718,500 shares of CHF 10.00 nominal value each. According to the Company's Articles of Association, the Board of Directors is authorized to increase the share capital at any time until May 14, 2010 by a maximum amount of CHF 7,185,000 by issuing shares not exceeding the amount of 718,500 fully paid up shares with a par value per share of CHF 10.00. Increases by way of fixed sale and increases by partial amounts are permitted. The Board of Directors shall set the issuing price per share, the date of commencement of entitlement to dividends and the type of contributions. The Board of Directors is authorized to exclude the preemptive rights of the shareholders for important reasons and assign these to third parties, particularly for a) the acquisition of a business or part of a business by way of share exchange b) for the financing of the acquisition of a business, part of a business, participation or new investments of the Company c) for granting of a participation to employees or (d) for strategic partnerships.

As of December 31, 2008, the Company had conditional capital of CHF 6,828,100 divided into 682,810 shares of CHF 10.00 nominal value each. Conditional capital may solely be used to issue/create shares in connection with the exercising of options which have been assigned to employees or members of the Board of Directors of the Company according to the Company's employee stock option plans (see also "Convertible Bonds and Options" within this section). The preemptive rights of the shareholders are excluded.

Changes in Capital

On February 15, 2000, the Company sold 100,000 shares at a price of CHF 110.00 per share under a private placement. The private placement resulted in net proceeds of TCHF 9,123. On April 3, 2000, the Company sold 300,000 shares at a price of CHF 440.00 per share under an initial public offering ("IPO"). The IPO resulted in net proceeds of TCHF 122,348.

In 2001, the Company issued 20,709 shares of capital stock, valued at TCHF 6,170, in connection with the acquisition of MarketingNet Ltd. and issued 1,473 shares of capital stock in connection with stock option exercises.

In 2003, the Company issued 3,047 shares of capital stock in connection with stock option exercises.

In 2004, the Company issued 84,344 shares of capital stock in connection with stock option exercises.

In June 2005, the Company issued 108,000 shares of authorized capital through MAG Capital, LLC resulting in net proceeds of TCHF 1,914. During the year, the Company issued 35,916 of shares of capital stock in connection with stock option exercises.

In 2006, the Company issued 28,094 shares of capital stock in connection with stock option exercises.

In 2007, the Company issued 55,769 shares of capital stock in connection with stock option exercises.

In 2008, the Company issued 35,690 shares of capital stock in connection with stock option exercises.

Shares and Participation Certificates

As of December 31, 2008, the Company had 1,473,123 ordinary shares at a par value of CHF 10.00 outstanding. All of these shares were paid up. Each registered share entitles the holder to one vote at the Annual General Meeting.

The Company has no other categories of shares or participation rights.

Limitations on Transferability

No restrictions exist regarding the transferability of Day shares. However, only those persons having their shares registered at the Company's shareholder register at SIX SAG AG, Olten, may exercise their voting rights. The Company's shareholder register remains closed 10 days prior to the Annual General Meeting and opens again the day after the Annual General Meeting. During this period, no registrations are possible.

Convertible Bonds and Options

As of December 31, 2008, the Company had no convertible bonds issued or outstanding.

The Company has two stock option plans, the Day Interactive Holding AG International Stock Option Plan (the "International Option Plan") and the Day Interactive Holding AG United States Stock Option Plan (the "United States Option Plan"). Both the International Option Plan and the United States Option Plan are administered by the Board of Directors and the Compensation Committee of the Board, which determine the terms and conditions of the options granted, including exercise price, number of options granted and the vesting period of such options. Substantially all of the stock options outstanding vest over a 2 to 4 year period and all have an exercise price equal to the market value on date of grant. The maximum term of options granted under the International Option Plan and the United States Option Plan is ten years. There were a total of 278,514 shares of capital stock available for issuance under the two stock options plans as of December 31, 2008.

As of December 31, 2008, the Company had 404,296 options outstanding under the International Option Plan and United States Option Plan. See Note 6 in the notes to the consolidated financial statements of Day Software Holding AG and subsidiaries for further information regarding the Company's outstanding options.

Board of Directors

The Board of Directors is comprised of the following individuals:

Michael Moppert

Michael Moppert is Chairman of the Board of Directors for Day. He co-founded the Company in Basel, Switzerland in 1993. He then drove the international growth of the Company, opening up the U.S. subsidiary of Day in Los Angeles in 1998. In 1999 subsidiaries in Germany, the UK and Asia/Pacific followed. Mr. Moppert led the Company to a successful IPO on the Swiss Stock Exchange in 2000. Prior to Day, Mr. Moppert was a journalist for several leading media companies, as well as an independent corporate communications consultant. Mr. Moppert holds a Masters degree in History and Sociology from the University of Basel, Switzerland. Mr. Moppert is a citizen of Switzerland.

Erik Hansen

Erik Hansen is Chief Executive Officer for Day, responsible for overall company strategy. He is a recognized industry veteran with over 30 years of experience as a senior executive at leading software companies, including Interwoven, Tibco, Siemens and Apple, both in Europe and in the United States. Before joining Day, Mr. Hansen was leading the European operations of Interwoven as Senior Vice President and General Manager EMEA. Prior to Interwoven, he was heading the European operations of Netegrity, a leading provider of identity and access management solutions. Before his engagement at Netegrity, Mr. Hansen served as President EMEA at Tibco, where he very successfully built the European operations of this global infrastructure software vendor. Before Tibco Mr. Hansen was Executive Vice President and General Manager Operations of Siemens Pyramid Inc, a 100% owned subsidiary of Siemens, during which time he was based in San Jose, California.

David Nüscherer

David Nüscherer is the Chief Technology Officer for Day. He is responsible for technology strategy for the Company and ongoing product development. Mr. Nüscherer joined Day in 1994 and was key to the growth of the Company from a small multimedia agency to a leading enterprise content management solution company. He created the basic concept for the original Communiqué and has guided product development to create a truly advanced content unification and presentation platform. He specializes in application and systems programming, as well as Internet programming. Mr. Nüscherer studied Computer Science at the Swiss Federal Institute of Technology in Zürich, Switzerland. Mr. Nüscherer is a citizen of Switzerland. Other than disclosed herein, David Nüscherer had no activities, official functions or other vested interests in bodies of important Swiss or foreign organizations or interest groups.

Mark Walsh

Mark Walsh is a non-executive member of the Board of Directors. He is the Managing Partner of Ruxton Ventures, LLC, a venture capital and private equity firm based in Washington DC that he founded. Prior to that, Mr. Walsh was the Chief Technology Advisor for the Democratic National Committee of the United States of America. He was the first person to have that job, and was responsible for bringing the party and its tactics into the 21st Century. He has been in the interactive services/internet industry for over 21 years. Previously, Mr. Walsh was the Chairman and Chief Strategy Officer of VerticalNet, Inc. Mr. Walsh joined VerticalNet in August 1997 as President and Chief Executive Officer, and was appointed to Chairman in July 2000. VerticalNet is an enterprise software and services company that uses the Internet to help companies transact and collaborate. Previously, he was a Senior Vice President and a corporate officer at America Online. He ran AOL Enterprise, the business-to-business division of AOL which he founded. He also was President of General Electric's interactive services division. Mr. Walsh holds an M.B.A. degree from Harvard University and B.A. degree from Union College, Schenectady New York. Mr. Walsh is a citizen of the United States.

Mark Walsh had no involvement in the senior management of the Company or its subsidiaries within the three financial years preceding the fiscal year 2008. He also had no significant business connections with the Company or its subsidiaries. Other than disclosed herein, Mark Walsh had no activities, official functions or other vested interests in bodies of important Swiss or foreign organizations or interest groups.

Greg Williams

Greg Williams is a non-executive member of the Board of Directors. Mr. Williams has been an attorney for over 18 years, and has specialized in the areas of corporate, securities, venture capital and mergers and acquisitions. Mr. Williams' areas of responsibility include corporate governance, contracts, intellectual property and licensing and counseling the Board of Directors. Mr. Williams received his B.I.S. from the University of Minnesota, magna cum laude and J.D. from University of Minnesota, cum laude. Mr. Williams is a citizen of the United States.

Greg Williams had no involvement in the senior management of the Company or its subsidiaries within the three financial years preceding the fiscal year 2008. He also had no significant business connections with the Company or its subsidiaries. Other than disclosed herein, Greg Williams had no activities, official functions or other vested interests in bodies of important Swiss or foreign organizations or interest groups.

Ariel Luedi

Ariel Luedi is a non-executive member of the Board of Directors. He is the CEO of hybris AG, a leading software company focusing on Product Information Management (PIM) and E-Business. At hybris he is responsible for European expansion and has initiated aggressive company growth. Mr. Luedi joined hybris in September 2004. Prior to coming to hybris, Mr. Luedi spent two years as Senior Vice-President of salesforce.com with responsibility for European sales and the development of European subsidiaries. During that time he oversaw an increase in revenue of more than 100% annually. Previously, Mr. Luedi led European sales at BroadVision for six years. During this period he managed to increase business from zero to over USD 100 million. Before that, he was in charge of sales at Oracle Switzerland for seven years. Mr. Luedi joined Oracle from IBM, his first position after studying physics at the Swiss Federal Institute of Technology in Zürich, Switzerland. Mr. Luedi is a citizen of Switzerland.

Ariel Luedi had no involvement in the senior management of the Company or its subsidiaries within the three financial years preceding the fiscal year 2008. He also had no significant business connections with the Company or its subsidiaries. Other than disclosed herein, Ariel Luedi had no activities, official functions or other vested interests in bodies of important Swiss or foreign organizations or interest groups.

Elections and Terms of Office

The members of the Board of Directors shall be elected at the Annual General Meeting of the Shareholders for a term of three years and are eligible for re-election. The terms of service shall end on the day of the General Meeting of the Shareholders. In the event of by-elections, the new members of the Board of Directors will complete the term of office of their predecessors. There is no limitation to the number of terms of office.

Board of Directors Member	Since	Term Expires
Michael Moppert	1999	2009
Erik Hansen	2008	2011
David Nüscheler	1999	2009
Mark Walsh	2000	2009
Greg Williams	2000	2009
Ariel Luedi	2005	2011

Internal Organizational Structure and Responsibility

The Board of Directors holds the ultimate decision-making authority for all matters except for those decisions reserved by law for shareholders. The Chairman sets convocation and agendas of the meetings of the Board of Directors. Any member of the Board of Directors may request the inclusion of further items on the agenda or request a meeting. The members receive documents and background information for all agenda items prior to the meetings in order to prepare questions and comments. The Board of Directors usually invites the Management Board, and on a case per case basis, other senior employees to give updates on operational issues within their respective tasks and responsibilities in the Company. The Board of Directors convenes as often as business requires. In 2008 it convened for a total of six ordinary meetings, each one generally between two and three hours, and two workshops, each of them during one and a half days.

As outlined above, the Board of Directors is responsible for making all key decisions as well as strategic decisions for the Company including sensitive compensation oriented decisions pertaining to the Management Board and the Board of Directors itself.

Day-to-day business management, operations and executing the operational plan as approved by the Board of Directors has been delegated to the CEO and the Management Board. Management Board provides business updates and information to the Board of Directors on a monthly basis, or more often and as specifically requested by the Board of Directors at any time.

The Board of Directors has two subcommittees, the Compensation Committee and the Audit Committee. The duties and responsibilities are set forth in regulations.

Members of the Compensation Committee include Greg Williams (Chairman), Mark Walsh, Michael Moppert and Ariel Luedi. The purpose and area of responsibility of the Compensation Committee is to review and approve the Company's overall compensation policies and material compensation plans and arrangements including the following:

- base salary ranges
- bonus arrangements
- other compensation arrangements such as stock option and stock purchase plans
- sales commission plans

The Committee shall also be responsible for reviewing and confirming the Company's written recommendations regarding the compensation arrangements between the Company and its senior executive officers. The Compensation Committee shall also be responsible for approving the Company's compensation arrangements between the Company and the CEO.

On an as needed basis, the Compensation Committee may seek outside expert advice to support its decisions and recommendations. In 2008 it convened for two meetings.

Members of the Audit Committee include Greg Williams (Chairman), Michael Moppert and Mark Walsh. The purpose and area of responsibility of the Audit Committee is to monitor the accounting and financial reporting practices of the Company. The Audit Committee's primary duties and responsibilities include the following:

- Serve as an independent and objective party to monitor the Company's accounting practices and financial reporting processes and internal control systems.
- Review and appraise the audit efforts of the Company's independent auditors.
- Provide an open avenue of communication among the Company's independent auditors, management, and the Board of Directors.
- Recommend which firm to engage as the Company's independent auditors.
- Review the independent auditors' compensation, the proposed terms of its engagement, and its independence.
- Review the audited financial statements and other results of each external audit, including any qualifications in the independent auditors' annual financial statements and opinion, any related management letters, and Management's responses to recommendations made by the independent auditors in connection with the audit.
- Consider, in consultation with the independent auditors, the adequacy of the Company's internal financial controls. Among other things, these controls must be designed to provide reasonable assurance that the Company's financial statements are presented fairly in conformity with generally accepted accounting principles.
- Perform such other functions as specifically delegated by the Board of Directors.

Meetings of the Audit Committee took place on a regular and on an as needed basis. In 2008 it convened for four meetings. The Company's auditors were present for the meeting.

Information and Control Instruments

The Board of Directors uses a variety of information and control instruments to closely monitor the Company's operations and operational risks. The Board of Directors holds periodic meetings to review the results of operations and to discuss matters that are deemed critical to the Company. The Board of Directors principally relies on the Company's global accounting system which provides a wide variety of reports including full monthly reports in which the results of operations may be analyzed. The CEO and the Management Board supplements this information as requested by the various members of the Board of Directors. At the end of each financial quarter, CEO and CFO immediately issue interim balances that will be provided to the Board of Directors. Final quarterly results will then be provided and discussed accordingly.

The Company decided to establish a set of risk management systems incorporating existing operational and financial risk and reporting systems. The goal of the Company's risk management is to minimize operational risks related to the Company's core assets and therefore monitor and control all processes that are key and of major financial relevance to the Company.

Management Board

The Management Board is comprised of the following individuals:

Erik Hansen

Erik Hansen was appointed Chief Executive Officer in June 2008. Michael Moppert, the Chief Executive Officer prior to Mr. Hansen's appointment, continues to serve the Company as Chairman of the Board of Directors of Day.

As Chief Executive Officer for Day, Mr. Hansen is responsible for overall company strategy. He is a recognized industry veteran with over 30 years of experience as a senior executive at leading software companies, including Interwoven, Tibco, Siemens and Apple, both in Europe and in the United States. Before joining Day, Mr. Hansen was leading the European operations of Interwoven as Senior Vice President and General Manager EMEA. Prior to Interwoven, he was heading the European operations of Netegrity, a leading provider of identity and access management solutions. Before his engagement at Netegrity, Mr. Hansen served as President EMEA at Tibco, where he very successfully built the European operations of this global infrastructure software vendor. Before Tibco Mr. Hansen was Executive Vice President and General Manager Operations of Siemens Pyramid Inc, a 100% owned subsidiary of Siemens, during which time he was based in San Jose, California.

David Nüscheler

David Nüscheler serves as the Company's Chief Technology Officer. He is responsible for technology strategy for the Company and ongoing product development. Mr. Nüscheler joined Day in 1994 and was key to the growth of the Company from a small multimedia agency to a leading enterprise content management solution company. He created the basic concept for the original Communiqué and has guided product development to create a truly advanced content unification and presentation platform. He specializes in application and systems programming, as well as Internet programming. Mr. Nüscheler studied Computer Science at the Swiss Federal Institute of Technology in Zürich, Switzerland. Mr. Nüscheler is a citizen of Switzerland.

Richard Francis

Richard Francis was appointed Chief Financial Officer in September 2008. Mr. Francis replaced Chris Harano who had served as Day's Chief Financial Officer since 1999.

Mr. Francis has experience managing finance, operations, and development, for both public and privately-held technology companies. Previously, Mr. Francis served as Chief Financial Officer of Celona Technologies, provider of application data migration platforms. Prior to joining Celona, Mr. Francis was Senior Director of Finance, EMEA for Interwoven. He has also held senior finance positions with Novell, Gillette and Duracell, and qualified as a Chartered Accountant with Deloitte and Touche.

The Company has not entered into any management contracts with third parties. Other than disclosed herein, the members of the Management Board had no activities, official functions or other vested interests in bodies of important Swiss or foreign organizations or interest groups.

Compensation and Shareholdings

Method of Determining Compensation

The basic principles guiding compensation levels are the economic budget constraints of the Company and the market for individual management talent. Compensation packages can vary greatly between the various roles in the Company.

The Board of Directors determines the compensation of the Board of Directors once per fiscal year. The Compensation Committee determines the compensation of The Management Board.

The basic elements of compensation include base salary, performance bonuses, car allowances, expense allowances and, in certain instances, equity incentives such as stock options. It is also typical for the Company to offer certain employee benefit programs such as medical insurance, life insurance and retirement plans. Available benefits tend to vary significantly based on country or jurisdiction and the local employment market conditions.

Director and Management Compensation

Compensation paid to Management Board and Board of Directors in 2008

In Thousands of CHF

Name & Function(s)	Salaries	Board Member Fees	Bonus	Car & Expense Allowance	Retirement & Social Security	Value of Options Granted (3)	Total
Management Board (1)							
Erik Hansen, CEO from June 2, 2008 & Member, Board of Directors	210	–	88	19	74	788	1,179
Michael Moppert, CEO to June 2, 2008 & Chairman, Board of Directors	154	34	100	19	80	15	402
David Nüscherer, CTO & Member, Board of Directors	183	–	–	32	24	–	239
Richard Francis, CFO from September 15, 2008	79	–	13	5	3	182	282
Chris Harano, CFO to September 15, 2008	175	–	–	–	9	83	267
Total Management Board	801	34	201	75	190	1,068	2,369
Board of Directors (2)							
Mark Walsh, Non-executive Member	–	23	–	–	–	15	38
Greg Williams, Non-executive Member	–	25	–	–	–	15	40
Ariel Luedi, Non-executive Member	–	20	–	–	1	15	36
Total Board of Directors	–	68	–	–	1	45	114

(1) Includes Management Board members who also hold seats on the Company's Board of Directors.

(2) Excludes members of the Board of Directors who also hold seats on the Management Board.

(3) The value of options granted is calculated by taking the number of options granted during the year multiplied by the grant date fair value of the options calculated using the Black-Scholes option-pricing model as prescribed by SFAS 123R.

Shares owned and options outstanding held by the Management Board and Board of Directors as of December 31, 2008

Name & Function(s)	Shares Owned	Options Outstanding	Options Vested	Exercise Price	Expiration Year
Management Board (1)					
Erik Hansen, CEO from June 2, 2008 & Member, Board of Directors	–	55,000	8,020	17.55-31.50	2013
Michael Moppert, CEO to June 2, 2008 & Chairman, Board of Directors	235,396	17,648	16,469	20.10-31.25	2009-2013
David Nüscheler, CTO & Member, Board of Directors	131,965	10,800	10,800	20.10	2009
Richard Francis, CFO from September 15, 2008	–	20,000	1,458	26.30	2013
Chris Harano, CFO to September 15, 2008	–	66,057	62,175	21.00-35.00	2009
Total Management Board	367,361	169,505	98,922		
Board of Directors (2)					
Mark Walsh, Non-executive Member	–	25,848	22,502	17.65-32.00	2011-2018
Greg Williams, Non-executive Member	–	16,155	12,809	17.65-32.00	2009-2018
Ariel Luedi, Non-executive Member	–	21,348	16,502	23.00-32.00	2010-2013
Total Board of Directors	–	63,351	51,813		

(1) Includes Management Board members who also hold seats on the Company's Board of Directors.

(2) Excludes members of the Board of Directors who also hold seats on the Management Board.

Shareholders' Participation Rights

Each registered share entitles the holder to one vote. The Company has not adopted any restrictions regarding the transferability of Day shares. However, only those persons having their shares registered at the Company's shareholder register at SIX SAG AG, Olten, may exercise their voting rights.

The Annual General Meeting adopts its resolutions and holds its elections by absolute majority of valid votes present at the Annual General Meeting. Specific quorum requirements under the Swiss Code of Obligations apply.

From ten days prior until the day following the Annual General Meeting of the Shareholders, no entry into the shareholders' register shall be made. Only those registered in the shareholders' register shall be recognized as shareholders vis-à-vis the Company. Shareholders who own shares with a par value of more than TCHF 1,000 may request the Company to add an item on the agenda.

Shareholders may be represented at the Annual General Meeting by another registered shareholder or a legally appointed representative. Shareholders may also be represented by a corporate proxy or an independent proxy.

Changes of Control and Defense Measures

Opting Up/Out & Mandatory Offer

The Federal Act on Stock Exchanges and Securities Trading ("SESTA") provides that whoever acquires more than 33-1/3% of the shares of a company shall be required to make a mandatory offer for all listed securities of said company. It is in the company's discretion to increase such threshold from 33-1/3% to 49% ("opting up") or waive such threshold under certain circumstances ("opting out"). The Company did not adopt any of the above options.

In the case of a mandatory offer of the Company's capital stock, pursuant to Art. 32 of SESTA, the offering price must be at least the market price of the Company's capital stock. However, pursuant to paragraph 4 of Art. 32 of the SESTA, such price may not be lower than the highest price paid by the offering party for shares of the Company during the preceding twelve months.

Clauses on Changes in Control

As more thoroughly described in a prior paragraph, there are outstanding options of 169,505 and 63,351 shares held by the Management Board and Board of Directors, respectively, to purchase shares of the Company's capital stock as of December 31, 2008. Substantially all of these options contain vesting acceleration provisions for unvested shares. These acceleration provisions are generally triggered by a change in control or corporate transaction, as defined, or an involuntary termination following a change in control or corporate transaction.

Auditors

Duration of the Mandate and Term of Office of the Auditor in Charge

BDO Visura, located in Zürich, Switzerland, serves as the Company's principal auditor. BDO Visura was elected in May 2007 at the General Meeting of the Shareholders and has served as the Company's principal auditor since their election.

Total fees to BDO Visura for the 2008 audit services amounted to TCHF 145. There were no other fees billed by BDO Visura for 2008.

Supervisory and Control Instruments Vis-À-Vis the Auditors

The Chairman of the Board of Directors meets on a periodic basis with the external auditors to discuss the results of the Company's operations and current business strategy. The external auditors engage in formal communications with the Audit Committee and the Chairman of the Board of Directors, generally on a quarterly basis.

BDO Visura serves as the Company's principal auditor since May 2007. The Company has also retained the audit firm of BR Wirtschaftsprüfungsgesellschaft mbH who acts as the Company's second auditor for special purposes. BR Wirtschaftsprüfungsgesellschaft mbH was first elected on June 2, 2003 and has been re-elected each year since this time. Their current mandate commenced in May 2007.

Information Policy

The Company provides information to the shareholders on a six-month and annual basis. To the extent that material events or conditions exist in the interim, additional information is provided as necessary. Information is provided in the form of filings with the SIX Swiss Exchange, press releases, downloadable files through the Investor Relations section of Day's website, www.day.com, and as requested via telephone at the Company's headquarters in Basel, Switzerland. See the Additional Information section of this Annual Report for further contact information.

Report on the Consolidated Financial Statements

Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Day Software Holding AG, Basel



BDO Visura
Audit and Assurance

CH-8031 Zurich, Fabrikstrasse 50
Tel. 044 444 35 55, Fax 044 444 37 66
www.bdo.ch

As statutory auditor, we have audited the consolidated financial statements of Day Software Holding AG, which comprise the balance sheets, statements of operations, statements of cash flows, statements of shareholders' equity and notes on pages 30 to 53 for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and US Generally Accepted Auditing Standards (US GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation and fair presentation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, April 15, 2009
BDO Visura

Andreas Wyss
Auditor in Charge
Swiss Certified Accountant
Licensed Audit Expert

Denis Tornare
Swiss Certified Accountant
Licensed Audit Expert

Consolidated Balance Sheets

(in thousands CHF, except share information)

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ASSETS	December 31, 2008	December 31, 2007
Current assets		
Cash and cash equivalents	12,814	11,442
Accounts receivable, net of allowance of CHF 211 and CHF 223 as of December 31, 2008 and 2007, respectively	9,263	8,762
Unbilled receivables	76	568
Other receivables	157	144
Prepaid expenses	397	650
Deferred tax assets	1,005	1,565
Current assets of discontinued operations	-	429
Total current assets	23,712	23,560
Non-current assets		
Property and equipment, net	346	355
Capitalized software development costs, net	-	1,891
Goodwill and intangible assets, net	-	2,951
Deferred tax assets	1,634	2,746
Other assets	105	100
Non-current assets of discontinued operations	-	39
Total non-current assets	2,085	8,082
TOTAL ASSETS	25,797	31,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	874	1,274
Deferred revenue	4,568	4,096
Other current liabilities	1,402	501
Current income taxes payable	190	-
Accrued liabilities	3,196	2,262
Current liabilities of discontinued operations	-	200
Total current liabilities	10,230	8,333
Deferred revenue less current portion	619	102
Long-term portion of unfunded pension obligation	2,295	1,720
Total liabilities	13,144	10,155
Shareholders' equity		
Share capital, CHF 10.00 par value; 1,473,123 shares issued and outstanding, 718,500 additional authorized, 682,810 conditional as of December 31, 2008; 1,437,433 shares issued and outstanding, 676,000 additional authorized, 592,137 conditional as of December 31, 2007	14,731	14,374
Treasury shares	(370)	(620)
Additional paid-in capital	141,388	140,568
Accumulated deficit	(143,570)	(131,227)
Accumulated other comprehensive loss	474	(1,608)
Total shareholders' equity	12,653	21,487
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	25,797	31,642

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Operations

(in thousands CHF, except share and per share information)

Year Ended December 31	2008	2007
Revenue		
Software licenses	11,347	10,526
Product support	9,680	8,137
Services	6,784	6,366
Total revenue	27,811	25,029
Cost of revenue		
Software licenses	271	332
Product support and services	6,849	5,936
Write-down of capitalized software costs	1,635	-
Total cost of revenue	8,755	6,268
Gross profit	19,056	18,761
Operating expenses		
Research and development	6,776	4,902
Sales and marketing	9,409	6,629
General and administrative	5,192	4,059
Income (loss) from continuing operations	(2,321)	3,171
Interest income	168	114
Interest expense	(3)	(2)
Foreign exchange gain (loss)	(2,530)	(25)
Other income (expense)	(18)	35
Income (loss) from continuing operations before income taxes	(4,704)	3,293
Benefit (provision) for income taxes	(1,807)	4,075
Net income (loss) from continuing operations	(6,511)	7,368
Net loss from discontinued operations, net of tax	(5,491)	(353)
Net income (loss)	(12,002)	7,015
Basic net income (loss) per share		
Continuing operations	(4.55)	5.25
Discontinued operations	(3.84)	(0.25)
Net income (loss)	(8.39)	5.00
Diluted net income (loss) per share		
Continuing operations	(4.55)	4.83
Discontinued operations	(3.84)	(0.23)
Net income (loss)	(8.39)	4.60

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands CHF)

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Year Ended December 31	2008	2007
Net income (loss)	(12,002)	7,015
Net loss - discontinued operations	5,491	353
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization of fixed assets	169	112
Amortization of capitalized software costs	256	319
Write-down of capitalized software costs	1,635	-
Net foreign currency exchange losses	2,530	55
Share-based compensation	732	427
Changes in operating assets and liabilities		
Accounts receivable	(1,411)	(3,398)
Unbilled receivables	497	728
Prepaid expenses and other current assets	179	(540)
Deferred tax assets	1,527	(4,437)
Other assets	(11)	(28)
Accounts payable	(292)	734
Deferred revenues	1,310	69
Accrued liabilities	803	961
Other current liabilities	299	13
Current income taxes payable	196	-
Pension liabilities	378	547
Net cash provided by operating activities of continuing operations	2,286	2,930
Cash flows from investing activities of continuing operations		
Capitalized software development cost	-	(673)
Purchases of equipment	(170)	(259)
Net cash used in investing activities of continuing operations	(170)	(932)
Cash flows from financing activities of continuing operations		
Proceeds from stock option exercises	477	806
Purchase of treasury shares	(1,047)	(3,098)
Proceeds from sale of treasury shares	913	3,478
Net cash provided by financing activities of continuing operations	343	1,186
Net cash used - discontinued operations	(295)	(109)
Foreign currency adjustment on cash	(792)	(53)
Net cash and cash equivalents at end of period - discontinued operations	-	(79)
Net increase in cash and cash equivalents	1,372	2,943
Cash and cash equivalents at beginning of period	11,442	8,499
Cash and cash equivalents at end of period	12,814	11,442
Supplemental disclosure of cash flow information		
Net interest paid	3	2
Net taxes paid	55	70
Non-cash investing and financing activities - none		

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands CHF, except share information)

	Share Capital Shares	Share Capital Amount	Treasury Shares	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances January 1, 2007	1,381,664	13,817	(1,255)	139,938	(138,033)	(1,970)	12,497
Proceeds from exercise of stock options	55,769	557	-	249	-	-	806
Purchase of treasury shares	-	-	(3,098)	-	-	-	(3,098)
Proceeds from sale of treasury shares	-	-	3,733	(46)	(209)	-	3,478
Share-based compensation	-	-	-	427	-	-	427
Comprehensive income (loss)							
Prior service cost	-	-	-	-	-	531	531
Net income	-	-	-	-	7,015	-	7,015
Foreign currency translation	-	-	-	-	-	(169)	(169)
Total comprehensive income	-	-	-	-	-	-	7,377
Balances December 31, 2007	1,437,433	14,374	(620)	140,568	(131,227)	(1,608)	21,487
Proceeds from exercise of stock options	35,690	357	-	120	-	-	477
Purchase of treasury shares	-	-	(1,047)	-	-	-	(1,047)
Proceeds from sale of treasury shares	-	-	1,297	(43)	(341)	-	913
Share-based compensation	-	-	-	743	-	-	743
Comprehensive income (loss)							
Prior service cost	-	-	-	-	-	(197)	(197)
Net loss	-	-	-	-	(12,002)	-	(12,002)
Foreign currency translation	-	-	-	-	-	2,279	2,279
Total comprehensive loss	-	-	-	-	-	-	(9,920)
Balances December 31, 2008	1,473,123	14,731	(370)	141,388	(143,570)	474	12,653

See accompanying notes to these consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands CHF, except share and per share information)

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Note 1 — Organization and History

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 an international provider of global content and 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, turn the entire business into

a virtual repository, bringing together content from any system, regardless of location, language or platform. The Company’s technology, CRX, is a java content repository that fully implements the new Java Content Repository API (JCR) standard that makes high value content easily accessible for any application. CRX is the first commercially available, industry strength implementation of the groundbreaking new JSR 170 standard for content repositories. 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 consolidated 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 2008 presentation.

On December 31, 2008, the Company sold its wholly owned subsidiary, MarketingNet, a UK company active in the agency services business. The Company acquired MarketingNet in October 2000. This sale was part of the Company’s efforts to refocus its UK operations on its core business and drive UK expansion through a channel-driven model. MarketingNet’s results of operations for 2008 and 2007 have been reported as a component of discontinued operations for all years presented in the consolidated statements of operations and cash flows. MarketingNet’s assets and liabilities as of December 31, 2007 have been reported in assets and liabilities from discontinued operations in the consolidated balance sheets.

Principles of Consolidation

The accompanying consolidated 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.

Use of Estimates

The preparation of consolidated financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial

statements, and the reported amounts of revenues and expenses during the reporting period. Changes in regional and industry economic conditions in which the Company and/or its customers participate can impact the estimates made by management. Significant items subject to such estimates and judgments include the recoverability of the carrying value of goodwill and other long-lived assets, the carrying amount of capitalized software, valuation allowance on net deferred tax assets, the collectibility of accounts receivable, the fair value of stock-based compensation awards, and assets and obligations related to employee benefits. Actual results could differ from those estimates.

Risks, Uncertainties and Concentrations of Credit Risk

The Company’s operations are subject to new innovations in product design and functionality. Significant technological changes can have an adverse effect on product lives. Design and development of new products are important elements to achieve profitability in this industry segment.

The Company, at times, maintains cash balances at financial institutions in excess of amounts insured by government agencies.

The Company provides credit in the normal course of business to customers. The Company does not obtain collateral with which to secure its accounts receivable. The Company maintains valuation allowances for potential credit losses based on the expected collectibility of accounts receivable. Management’s estimates are based on historical losses, existing economic conditions and the facts and circumstances for specific receivables. The Company continually monitors past due accounts and pursues collection through various means. To date, the Company has not had significant write-offs of its receivables.

During the year ended December 31, 2008, the Company generated 42% of its revenue from 13 customers and had no customers accounting for more than 6% of total revenues in 2008. During the year ended December 31, 2007, the Company generated 44% of its revenue from 16 customers and had no customers accounting for more than 5% of total revenues in 2007.

The Company derives most of its revenue from software licenses, product support and services sold to customers in the United States, Switzerland, Germany and the United Kingdom. The Company's future revenue and results of operations may be significantly and adversely affected by the economic conditions in these countries. Further, a significant portion of the Company's business is conducted in currencies other than the Swiss Franc. The Company does not currently utilize any derivative financial instruments to hedge its foreign currency exchange risks. In order to manage foreign currency exchange risks, the Company attempts to match cash inflows and outflows (revenues with cost of revenues and operating costs) in the same currency to the extent possible. The Company continually monitors its exposure to foreign currency exchange risk. However, fluctuations in foreign currency exchange rates, especially the value of the U.S. dollar, British pound and Euro, could significantly impact the Company's financial position and reported results of operations.

Revenue Recognition

The Company derives revenues from software license, product support and services. The Company recognizes revenue in accordance with Statement of Position 97-2, *Software Revenue Recognition* ("SOP 97-2").

Software license revenue is generally recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable and collectibility is probable.

Product support revenue, consisting of software license updates and technical support, is included in the majority of the Company's software license agreements and is generally priced based on a percentage of the product license fee and is recognized ratably over the term of the agreement, typically one year. Software license updates provide customers with rights to unspecified software updates and new releases and patches during the term of the support period.

Service revenue primarily consists of fees from software integration and training. The Company generally bills its professional services customers on a time and materials basis and recognizes revenue as the services are performed.

Generally, software license are sold with product support and services. For these multiple-element arrangements, the entire fee must be allocated to each element in the arrangement based on the element's fair value. The fair value is determined based on vendor-specific objective evidence ("VSOE") of fair value. VSOE of fair value is the price charged for the products and services if sold separately and the renewal rate for product support. Where fair values do not exist for one or more of the delivered elements but do exist for all of the undelivered elements, the Company recognizes revenue using the "residual method" under which the arrangement fee for the delivered elements is based on the difference between the total arrangement fee and the VSOE of fair value of the undelivered elements. The total fair value of the undelivered elements is deferred and subsequently recognized in accordance with SOP 97-2.

Services sold within a multiple-element arrangement are accounted for separately from the other elements in the arrangement if the service element is not essential to the functionality of the other elements of the arrangement.

The Company defers revenue for software arrangements when cash has been received from the customer and the arrangement does not qualify for revenue recognition under the Company's policy. These amounts are reflected as deferred revenue on the accompanying consolidated balance sheets. The Company records an account receivable for software arrangements when the arrangement qualifies for revenue recognition and cash or other consideration has not been received from the customer. The Company will record an unbilled receivable for software arrangements when the arrangement qualifies for revenue recognition but the customer has not yet been billed.

Fair Value of Financial Instruments

The Company has certain financial instruments whereby the actual fair value of the financial instruments could be different from that recorded on a historical cost basis in the accompanying consolidated balance sheets at December 31, 2008 and 2007. The Company has financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, which are carried at cost and approximate fair values due to the short-term nature of these instruments.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and are depreciated using the straight-line method over their estimated useful lives ranging from two to five years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the related lease. Maintenance and repairs are expensed as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Capitalized Software Development Costs

Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* ("FAS 86"), 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. Software costs capitalized during the years ended December 31, 2008 and 2007 totaled TCHF 0 and TCHF 673, respectively. Monthly amortization of capitalized software development costs, charged to cost of revenues – software license, 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. Amortization expense for the years ended December 31, 2008 and 2007 was TCHF 256 and TCHF 319, respectively.

Unamortized capitalized software costs are reported at net realizable value, which is determined on a product-by-product basis and is based on estimated future gross revenues. The products related to the capitalized software development costs are no longer being sold based on their original code as developed as these software products have gone through a major architectural redesign during 2008. Therefore, management believes the estimated future gross revenue related to these products is close to zero and has written down these unamortized capitalized software costs to zero as of December 31, 2008. Write down of capitalized software costs charged to cost of revenues was TCHF 1,635 during the year ended December 31, 2008.

Costs of internally developed software upgrades and maintenance are expensed as incurred. Costs of training and data conversion are expensed as incurred.

Goodwill and Other Intangible Assets

On December 31, 2008, The Company sold MarketingNet Ltd. ("MarketingNet"), a wholly owned subsidiary. See Note 9 to the consolidated financial statements. As a result of the sale, the goodwill and other intangible assets were written down to zero resulting in a charge to discontinued operations of TCHF 2,764. Intangible assets at December 31, 2007 included goodwill of TCHF 2,422 and other intangible assets (brands) of TCHF 529, which resulted from the acquisition of MarketingNet in October 2000.

Goodwill represents the excess of costs over fair value of assets of businesses acquired. In accordance with Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually and are tested for impairment more frequently if events and circumstances indicate that an asset might be impaired. Impairment, if any, is measured as the difference between the carrying value and the fair value of the asset. The write-down of the goodwill due to the sale of MarketingNet resulted in a charge, which is included in discontinued operations, of TCHF 2,422 during the year ended December 31, 2008. There were no impairment charges recorded on goodwill and intangible assets with indefinite useful lives during the year ended December 31, 2007.

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). Intangible assets, stated at cost net of amortization and impairment charges, include brand name, which is amortized on a straight-line basis over the estimated useful life of ten years and a non-compete agreement which is fully amortized. Accumulated amortization and impairment on other intangible assets as of December 31, 2008 and 2007 was TCHF 0 and TCHF 13,056, respectively. Amortization expense of these intangible assets, which is included in discontinued operations, totaled TCHF 187 for each of the years ended December 31, 2008 and 2007. The write-down of the intangible assets due to the sale of MarketingNet resulted in a charge, which is included in discontinued operations, of TCHF 342 during the year ended December 31, 2008. There were no impairment charges recorded in 2007 on these other intangibles assets.

Impairment of Long-lived Assets

In accordance with SFAS 144, long-lived assets, such as property and equipment, capitalized software, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying value. If an asset is determined to be impaired, the impairment is measured by the amount that the carrying amount of the asset exceeds its fair value. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Foreign Currency

The Company operates in multiple countries and therefore is exposed to movements in foreign currencies. The functional currencies of the Company's foreign subsidiaries are their respective local currencies as these are the currencies of the primary economic environment in which the subsidiaries operate. These currencies include the U.S. dollar, British Pound, the Euro and the Singapore Dollar. The financial statements of these foreign subsidiaries are translated into the Swiss Franc, the Company's reporting currency, to prepare the consolidated financial statements. In accordance with Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation* ("SFAS 52"), the resulting foreign currency translation adjustments are included in other comprehensive income (loss). Changes in the exchange rates of these foreign currencies against the Swiss Franc will result in currency translation effects that could have a significant impact on the Company's consolidated financial statements.

The effect of exchange rate fluctuations on intercompany balances (resulting from foreign currency loans) where settlement is not planned or anticipated in the foreseeable future is also included as a component of other comprehensive income (loss). During 2008, most of these loan balances were eliminated by either moving to investment in subsidiary/paid in capital or by writing off. These intercompany transactions were then eliminated during consolidation.

The amount of local currency paid or received for transactions (including intercompany transactions where settlement is planned or anticipated in the foreseeable future) denominated in foreign currencies may vary due to changes in exchange rates from date of transaction to date of settlement. The resulting foreign exchange gains and losses from specific foreign currency transactions are included in the consolidated results of operations. Foreign exchange losses were TCHF 2,530 and TCHF 25 for the years ended December 31, 2008 and 2007, respectively.

The foreign exchange losses for 2008 include a TCHF 2,296 non-cash charge resulting from reclassification of foreign exchange losses on intercompany balances accumulated in other comprehensive income (loss) into current year consolidated results of operations as the settlement of these intercompany balances is now planned in the foreseeable future. The foreign exchange losses were due to the declining value of the U.S. dollar, Euro and British Pound against the Swiss Franc during 2008 and 2007. During 2008, some of these intercompany balances were eliminated by write off. The Company will settle these remaining intercompany balances as soon as the cash is available to minimize future foreign exchange gains and losses related to these balances.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was TCHF 1,349 and TCHF 631 for the years ended December 31, 2008 and 2007, respectively and is included in sales and marketing expense in the accompanying consolidated financial statements.

Research and Development Costs

Costs related to research, design, and development of computer software and related products are charged to research and development expense as incurred. Research and development expenses are principally comprised of payroll and payroll related costs.

Retirement and Pension Plans

As of December 31, 2006, the Company adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of Financial Accounting Standards Board Statements No. 87, 88, 106 and 132(R)*, ("SFAS 158"). This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. SFAS 158 also requires the measurement date of the plan's funded status to be the same as the Company's fiscal year-end.

Upon adoption, the Company recorded an adjustment of TCHF 1,358 to the ending balance of accumulated other comprehensive loss. The adjustment to accumulated other comprehensive loss consisted of TCHF 715 of unrecognized transition obligations and TCHF 643 of unrecognized actuarial loss. The Company recorded an offsetting adjustment of TCHF 1,358 to the long-term portion of unfunded pension obligation.

Income Taxes

The Company accounts for its income taxes under an asset and liability method whereby deferred tax assets and liabilities are determined based on temporary differences between basis used for financial reporting and income tax reporting purposes. Deferred income tax assets and liabilities are recognized based on the enacted tax rates that are in effect at the time such temporary differences are expected to reverse. A valuation allowance is provided for certain deferred tax assets if management determines that it is more likely than not that the Company will not realize all or a portion of these tax assets.

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* and 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, disclosure, and transition. The adoption of FIN 48 had no impact on the consolidated financial statements.

Share-Based Compensation Expense

On January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R establishes accounting guidance for transactions in which an entity awards its equity instruments in exchange for employee services. The cost of the employee's service is measured based on the grant dated fair value of the equity instrument, adjusted for estimated forfeiture rate, and is expensed over the vesting period of the equity instrument. SFAS 123R applies to all awards granted, modified, repurchased or cancelled after SFAS 123R is adopted. The Company is using the modified prospective method established under SFAS 123R to account for all unvested awards granted prior to January 1, 2006. Under the modified prospective method, share-based compensation expense is calculated by taking the grant date fair market value of the award calculated under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and amortizing the pro rata expense over the remaining vesting period.

In November 2005, the Financial Accounting Standards Board issued Financial Accounting Standard No. 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* ("FSP 123R-3"). The Company has elected to adopt the alternative transition method provided in FSP 123R-3 for calculating the tax effects of stock-based compensation under SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in-capital pool ("APIC pool") related to the tax effects of stock-based compensation, and for determining the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

New Accounting Standards Adopted

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") with respect to its financial assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have a material impact on the consolidated financial statements.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to make an irrevocable election to measure many financial instruments and certain other items at fair value at specified election dates and at subsequent reporting dates. The entity shall record unrealized gains and losses for items valued at fair value at each subsequent reporting date. The Company chose not to elect the fair value option for any of its financial assets and financial liabilities as of December 31, 2008.

New Accounting Standards Not Yet Adopted

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning on or after November 15, 2008. The Company anticipates that the adoption of SFAS 161 will not have a have material impact on the consolidated financial statements.

In February 2008, FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the adoption of SFAS 157 to nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years and interim periods beginning on or after November 15, 2008. The Company anticipates that the adoption of SFAS 157 to nonfinancial assets and nonfinancial liabilities will not have a have material impact on the consolidated financial statements.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 (Revised 2007), *Business Combinations* ("SFAS 141"). SFAS 141 established principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the

identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired, or the gain from a bargain purchase. SFAS 141 also determines what information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141 is effective for fiscal years beginning on or after December 15, 2008. The impact of SFAS 141 on the consolidated financial statements will depend on details of acquisitions completed after adoption.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statement, an Amendment of ARB No. 51* ("SFAS 160"), which changes the accounting and reporting for minority interests. SFAS 160 establishes accounting and reporting standards that require a) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity but separate from the parent's equity; b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; c) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; d) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value and the gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment; e) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years and interim periods beginning on or after December 15, 2008 and shall be applied prospectively as of the beginning of the year of adoption. The Company anticipates that the adoption of SFAS 160 will not have a have material impact on the consolidated financial statements.

Note 3 — Net Income (Loss) Per Share

Basic net income (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 net income per share 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 net loss per share 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.

Common stock equivalents totaling 9,000 were excluded from the weighted average number of shares outstanding used in the diluted income per share calculation for the year ended December 31, 2007 because their exercise price was greater than the Company's average stock price during the period, therefore making their inclusion anti-dilutive.

Net income (loss) per share calculations for the years ended December 31

In thousands of CHF, except per share information		2008	2007
Net income (loss) from continuing operations		(6,511)	7,368
Net loss from discontinued operations, net of tax		(5,491)	(353)
Net income (loss)		(12,002)	7,015
Weighted average shares - basic		1,431,309	1,403,612
Potentially dilutive shares		–	122,259
Weighted average shares - dilutive		1,431,309	1,525,871
Basic net income (loss) per share	Continuing operations	(4.55)	5.25
	Discontinued operations	(3.84)	(0.25)
	Net income (loss)	(8.39)	5.00
Diluted net income (loss) per share	Continuing operations	(4.55)	4.83
	Discontinued operations	(3.84)	(0.23)
	Net income (loss)	(8.39)	4.60

Note 4 — Property and Equipment

Property and equipment as of December 31

In thousands CHF	Life of Asset	2008	2007
Computer equipment and software	2 to 3 years	2,737	3,966
Furniture and fixtures	5 years	937	1,070
Leasehold Improvements	Useful life or lease term	2,991	2,981
		6,665	8,017
Less Accumulated depreciation and amortization		(6,319)	(7,623)
Property and equipment, net		346	394
Less property and equipment, net – discontinued operations -		(39)	
Property and equipment, net – continued operations		346	355

For the years ended December 31, 2008 and 2007, depreciation expense totaled TCHF 169 and TCHF 112, respectively.

Note 5 — Commitments and Contingencies

Leases

The Company has several noncancelable operating leases and a capital lease, primarily for its office facilities and certain office equipment in Europe and the United States. These facilities hold all of the Company's operations and these leases expire at various dates ranging from one to three years.

Property and equipment included equipment under capital leases was TCHF 76 as of December 31, 2008 and 2007, respectively. Accumulated depreciation and amortization included amortization of equipment under capital leases totaling TCHF 40 and TCHF 15 as of December 31, 2008 and 2007, respectively.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Total rent expense for the years ended December 31, 2008 and 2007 was TCHF 984 and TCHF 878, respectively.

Employment Contracts

The Company has entered into employment contracts with certain officers and employees of the Company. The employment contracts expire at various dates. Under the provisions of the employment contracts, the Company may terminate all of these contracts for cash payments totaling TCHF 778.

Indemnification Clauses in Software License Agreements

The Company's standard software license agreement includes an indemnification clause that indemnifies the licensee against liability and damages arising out of or in connection with an assertion that the software infringes any United States trademark or copyright. FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires certain disclosures regarding intellectual property infringement indemnification. To date, the Company has had no material claims or costs related to these indemnification clauses and therefore, has no liability recorded related to these indemnification clauses as of December 31, 2008 and 2007.

The Company's future annual minimum lease payments to be made as of December 31, 2008

In thousands CHF	Capital Lease	Operating Leases
2009	26	523
2010	12	303
Thereafter	–	–
Total	38	826
Less interest	(2)	
Present value of minimum lease payments	36	

Note 6 — Shareholders' Equity

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Description of Share Capital

The Company's share capital is comprised of ordinary capital, authorized capital and conditional capital. Authorized capital can be issued at the discretion of the Board of Directors of the Company, provided that any issuances of authorized capital are within a period not exceeding two years following approval by the shareholders (currently before May 14, 2010). Any increases to authorized or conditional capital are subject to the approval of the shareholders.

As of December 31, 2008 and 2007, the Company had 718,500 and 676,000 shares of authorized capital, respectively, subject to certain limitations and restrictions. Authorized capital can be used for acquisitions, new investments, participation of employees and strategic alliances and partnerships.

As of December 31, 2008 and 2007, the Company had 682,810 and 592,137 shares of conditional capital, respectively, subject to certain limitations and restrictions. Conditional capital will only be issued in connection with the exercise of the Company's stock options granted to employees.

Dividends may be paid only if the Company has sufficient distributable profits from previous fiscal years, or if reserves are sufficient to allow for the distribution of a dividend based on the results of statutory financial statements of Day Software Holding AG. The Company is required to retain at least 5% of the annual net profits as a general reserve until such time that the reserves are at least 20% of the Company's nominal share capital. Dividends are subject to the approval of the shareholders. To date, no dividends have been declared.

Treasury Shares

The Company purchases and sells its own shares of common stock and accounts for these transactions under the cost method of accounting for treasury shares. Treasury shares are included in the Consolidated Balance Sheets as a reduction in Shareholders' Equity. Purchases of the Company's own shares are reported at cost as an increase in treasury shares. Sales of the Company's own shares are reported as a reduction in Treasury Shares based on the First in First Out ("FIFO") method. If the shares are sold at a price in excess of the original cost using the FIFO method (gain on sale), paid-in capital is increased for the gain on sale. If the shares are sold at a price less than the original cost using the FIFO method (loss on sale), paid-in capital is first decreased by an amount not to exceed the paid-in capital amount from previous treasury share transactions. Any remaining loss on sale is recorded as a decrease to retained earnings.

There were 17,756 and 13,716 shares of capital stock in the treasury as of December 31, 2008 and 2007, respectively. During 2008, the Company acquired 37,316 treasury shares for at total price of TCHF 1,047 at an average price of CHF 28.05 per share and sold 33,276 treasury shares for a total price of TCHF 924 at an average price of CHF 27.76 per share. The sale of treasury shares sold during 2008 resulted in a TCHF 43 decrease in paid-in capital and a TCHF 341 increase in accumulated deficit. During 2007, the Company acquired 74,532 treasury shares for at total price of TCHF 3,098 at an average price of CHF 41.57 per share and sold 76,802 treasury shares for a total price of TCHF 3,478 at an average price of CHF 45.29 per share. The sale of treasury shares sold during 2007 resulted in a TCHF 46 decrease in paid-in capital and a TCHF 209 increase in accumulated deficit.

Share-based Compensation

The Company has two stock option plans, the Day Interactive Holding AG International Stock Option Plan (the "International Option Plan") and the Day Interactive Holding AG United States Stock Option Plan (the "United States Option Plan"). Both the International Option Plan and the United States Option Plan are administered by the Board of Directors, which determines the terms and conditions of the options granted, including exercise price, number of options granted and the vesting period of such options.

Substantially all of the stock options outstanding vest over a 2 to 4 year period and all have an exercise price equal to the market value on date of grant. The maximum term of options granted under the International Option Plan and the United States Option Plan is ten years. There were a total of 278,514 shares of capital stock available for issuance under the two stock option plans as of December 31, 2008.

Share-based compensation expense included in the consolidated statements of operations for the years ended December 31

In thousands CHF	2008	2007
Cost of revenue – product support and services	54	27
Research and development	89	69
Sales and marketing	204	117
General and administrative	385	214
Total share-based compensation	732	427

For the years ended December 31, 2008 and 2007, 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 123R using the assumptions in the following table. The risk-free interest rate is based

on the Swiss Confederation bond yield during the option grant period. The expected life is calculated taking an average between the option vesting term and the contractual term. The expected volatility is based on historical volatility. The forfeiture rates are based on historical forfeitures.

Assumptions for calculation of the fair value of each option granted on the date of grant using the Black Scholes option-pricing model under both stock option plans

	2008	2007
Risk-free interest rate under International Option Plan	1.92-2.86%	2.51-2.7%
Risk-free interest rate under United States Option Plan	1.92-2.86%	2.51%
Expected life (years) under International Option Plan	3.75	3.75
Expected life (years) under United States Option Plan	6.25	6.25
Expected volatility	43.2- 45.3%	41.2- 42.5%
Forfeiture rate under International Option Plan	–	–
Forfeiture rate under United States Option Plan	–	–
Dividend yield	–	–

Stock option activity under both plans for the years ended December 31

	Number of Options		Weighted Average Exercise Price per Share	
	2008	2007	2008	2007
Outstanding, beginning of year	270,884	310,179	21.24	19.11
Granted	177,292	28,000	25.64	30.93
Exercised	(35,690)	(55,769)	13.36	14.46
Forfeited, expired or cancelled	(8,190)	(11,526)	15.96	20.24
Outstanding, end of year	404,296	270,884	23.97	21.24
Exercisable, end of year	231,809	214,282	22.63	20.15

Aggregate intrinsic value of options under both plans for the years ended December 31

In thousands CHF	2008	2007
Aggregate intrinsic value of options outstanding	7	5,748
Aggregate intrinsic value of options exercisable	7	4,779
Aggregate intrinsic value of options exercised	288	1,955

The total aggregate intrinsic value of options outstanding was calculated as the difference in the Company's closing stock price on the last trading day in the period and the exercise price of options outstanding on the last day in the period multiplied by the number of options outstanding on the last day of the period. The total aggregate intrinsic value of options exercisable was calculated as the difference in the Company's closing stock price on the last trading day in the period and the exercise price

of options exercisable (or vested and outstanding) on the last day in the period multiplied by the number of options exercisable (or vested and outstanding) on the last day of the period. The total aggregate intrinsic value of options exercised was calculated as the difference in the Company's stock price on the day of exercise and the exercise price of options exercised multiplied by the number of options exercised.

Stock option activity for nonvested shares under both stock option plans for the years ended December 31

	Number of Options		Weighted Average Grant Date Fair Value	
	2008	2007	2008	2007
Nonvested, beginning of year	56,602	64,511	11.80	11.72
Granted	177,292	28,000	12.81	12.85
Vested	(60,858)	(35,761)	12.35	11.58
Forfeited, expired or cancelled	(549)	(148)	10.03	7.70
Nonvested, end of year	172,487	56,602	12.65	11.80

Summary of capital share options outstanding as of December 31, 2008

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
10.00 – 14.00	15,170	4.64	13.29	15,170	13.29
15.05 – 19.75	100,120	4.01	17.31	45,377	17.21
20.10 – 24.30	150,314	4.97	21.29	120,287	21.25
26.30 – 29.00	33,100	2.73	26.99	8,117	27.66
30.00 – 35.30	100,592	5.08	33.96	41,546	34.11
42.45 – 58.00	5,000	3.75	49.46	1,312	49.31
	404,296			231,809	

As of December 31, 2008, total share-based compensation cost not yet recognized related to nonvested share-based arrangements was TCHF 1,974.

It is estimated that this cost will be recognized over a weighted average period of 3.12 years.

Note 7 — Retirement and Pension Plans

United States

In the United States, the Company sponsors a 401(k) retirement plan (the "Plan") that is considered a defined contribution discretionary plan under which eligible participants may contribute up to a maximum of 80% of their pre-tax earnings subject to certain statutory limitations. The Company made no discretionary contributions to the Plan during 2008 and 2007.

Switzerland

Prior to 2005, the Company sponsored a defined contribution plan (the "Plan") covering all of its employees earning more than TCHF 25 per year. This plan was a multi-employer plan as defined by Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("SFAS 87"). Accordingly, the net pension cost in the consolidated financial statements equaled the contributions made by the Company. The premiums, which were based on a percentage of the employee's salary, were paid 50% by the employee and 50% by the employer. The percentages ranged from 8% to 19% of the employee's salary and were dependent on the age and gender.

At the beginning of 2005, certain law changes were introduced and the Plan was amended, which changed the Plan from a defined contribution plan to a defined benefit plan. As a result, a valuation of the accumulated postretirement benefit obligation was obtained at January 1, 2005. The initial effect of the plan amendment has been deferred in accordance with SFAS 87 and will be amortized on a straight-line basis over the service periods of those employees active at the date of the plan amendment. The pension benefit obligation in excess of the fair value of pension assets as of January 1, 2005 was TCHF 859 and is expected to be amortized over a period of 12 years.

The Company used December 31, 2008 and 2007 as the measurement date for determining the Plan's fair value of plan assets and the Plan's benefit obligation.

The Plan assets are invested in a collective foundation with an insurance company and are guaranteed an annual rate of return of 2.75%.

The Company estimates that it will make TCHF 600 in contributions to the Plan during 2009.

Accumulated benefit obligation for the Plan at December 31

In thousands CHF	2008	2007
Accumulated benefit obligation	6,582	4,751

Change in Plan pension benefit obligation for the years ended December 31

In thousands CHF	2008	2007
Pension benefit obligation at beginning of year	6,156	5,011
Service cost	845	615
Interest cost	188	158
Employee contributions	372	217
Liability (gain)/loss	52	(372)
Net cash inflows from plan participants	209	527
Pension benefit obligation at end of year	7,822	6,156

Change in Plan assets for the years ended December 31

In thousands CHF	2008	2007
Fair value of plan assets at beginning of year	4,436	3,306
Actual return on assets	(42)	(48)
Company contributions	552	434
Employee contributions	372	217
Net cash inflows from plan participants	209	527
Fair value of plan assets at end of year	5,527	4,436

The Plan amounts recognized in the balance sheet at December 31

In thousands CHF	2008	2007
Long-term portion of unfunded pension obligation	(2,295)	(1,720)
Amounts recognized in accumulated other comprehensive loss consist of the following		
Transition obligation	572	644
Net actuarial loss	723	454
Net amount recognized	(1,000)	(622)

The Plan net periodic benefit cost recognized for the years ended December 31

In thousands CHF	2008	2007
Net service cost	845	615
Interest cost	188	158
Expected return on assets	(175)	(136)
Amortization of transition expense	72	72
Net periodic benefit cost recognized during the year	930	709

Weighted-average assumptions used to determine net benefit cost for the years ended December 31

	2008	2007
Discount rate	3.00%	3.00%
Expected long-term rate of return on plan assets	3.50%	3.50%
Rate of compensation increase	1.50%	1.50%

Projected benefit payments over the next ten years

In thousands CHF	
2009	228
2010	228
2011	228
2012	228
2013	228
2014 to 2018	1,140

Note 8 — Income Taxes

The components of income (loss) from continuing operations before the benefit (provision) for taxes for the years ended December 31

In thousands CHF	2008	2007
Europe	(4,137)	3,497
Americas	(567)	(204)
Total	(4,704)	3,293

The components of the benefit (provision) for taxes for the years ended December 31

In thousands CHF	2008	2007
Current		
Europe	(347)	(64)
Americas	(27)	(26)
Total current	(374)	(90)
Deferred		
Europe	-	2,615
Americas	(1,433)	1,550
Total deferred	(1,433)	4,165
Total benefit (provision) for income taxes	(1,807)	4,075

A substantial portion of the Company's operations is outside of Switzerland and in various countries with different tax laws and rates. As a result the weighted-average statutory tax rate will vary from year to year according to each

country's pretax income or loss. The weighted average statutory rate is calculated using the pretax income of each country multiplied by the respective country's tax rate.

Reconciliation of the weighted average statutory tax rate and the effective income tax rate for the years ended December 31

	2008	2007
Weighted average statutory tax rate	(27.2%)	(25.5%)
Items taxed at other than weighted average rate	17.4%	(2.6%)
Change in valuation allowances	47.0%	169.7%
Other	1.2%	(3.0%)
Effective tax rate	38.4%	138.6%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31

In thousands CHF	2008	2007
Deferred tax assets		
Accrued pension cost	429	426
Net operating loss carryforwards	21,372	35,279
Total deferred tax assets	21,801	35,705
Less valuation allowance	(19,162)	(31,394)
Net deferred tax assets	2,639	4,311

The Company records a valuation allowance to reduce its deferred tax assets to the level that management believes will more likely than not be realized. In 2008, management reassessed the Company's ability to realize its deferred tax assets based on historical income and estimated projected discounted future taxable income for each country and determined that an increase of TCHF 1,433 in the valuation allowance on some deferred tax assets would be appropriate as management believed that it was more likely than not that some portion or all of the deferred tax assets would not be realized based on historical losses in many of the countries. The increase in the valuation allowance of TCHF 1,433 is recorded in the provision for taxes in the consolidated statements of operations for the year ended December 31, 2008. The Company may need to adjust the valuation allowance for deferred tax assets in the future if actual future taxable income by country is significantly different than management's estimates for future taxable income by county.

As of December 31, 2008, the Company had net operating loss carryforwards amounting to approximately TCHF 77,010, in a jurisdiction of Switzerland, which expire beginning 2009. The effective total income tax rate in the Canton of Basel, Switzerland, the jurisdiction of the Company's primary income generating activity, is approximately 24.8%. Day Software Holding AG does not pay any cantonal taxes, only federal taxes at 7.8%.

As of December 31, 2008, the Company had United States federal net operating loss carryforwards amounting to approximately TCHF 30,763. These federal net operating loss carryforwards expire beginning in 2019. Section 382 of the United States Internal Revenue Code includes provisions that may limit the net operating loss carryforwards available for use in any given year if certain events occur, including significant changes in stock ownership.

In addition, the Company has certain net operating loss carryforwards in Germany, the United Kingdom and Singapore and amounting to approximately TCHF 11,631 as of December 31, 2008 which will be carried forward until they are used to offset taxable income.

Note 9 — Discontinued Operations

On December 31, 2008, the Company sold its wholly owned subsidiary, MarketingNet, a UK company active in the agency services business. The Company acquired MarketingNet in October 2000.

This sale was part of the Company's efforts to refocus its UK operations on its core business and drive UK expansion through a channel-driven model.

Discontinued operations related to the sales of MarketingNet for the years ended December 31

In thousands CHF	2008	2007
Results from operations		
Loss from operations	513	166
Amortization of acquired intangible assets	187	187
Total loss on operations	700	353
Loss on sale		
Write-off of goodwill and intangible assets, net	2,764	-
Foreign exchange loss on write-off of intercompany loans to MarketingNet	992	-
Closing expenses	302	-
Tax accrual	653	-
MarketingNet's net assets	80	-
Total loss on sale	4,791	-
Total loss included in discontinued operations	5,491	353

Note 10 — Segment and Other 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 and the Americas. The Company's Asia Pacific operating segment have been combined with the Americas as the operations are not significant. The accounting policies of the segments are the same as those described in the sum-

mary 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 for the years ended December 31

In thousands CHF	2008	2007
Revenue		
Europe	14,246	13,291
Americas	13,565	11,738
Total revenue	27,811	25,029
Software license revenue		
Europe	5,136	5,816
Americas	6,211	4,710
Total software license revenue	11,347	10,526
Product support revenue		
Europe	5,410	5,222
Americas	4,270	2,915
Total product support revenue	9,680	8,137
Services revenue		
Europe	3,700	2,253
Americas	3,084	4,113
Total services revenue	6,784	6,366
Net income (loss)		
Europe	(9,730)	5,814
Americas	(2,272)	1,201
Total net income (loss)	(12,002)	7,015
Assets		
Europe	19,574	23,873
Americas	6,223	7,769
Total assets	25,797	31,642
Expenditures for long-lived assets		
Europe	148	184
Americas	22	75
Total expenditures for long-lived assets	170	259
Interest income		
Europe	166	111
Americas	2	3
Total interest income	168	114
Depreciation of fixed assets		
Europe	122	80
Americas	47	32
Total depreciation of fixed assets	169	112

Note 11 — Subsequent Events

The 2008 consolidated financial statements of Day Software Holding AG and subsidiaries were approved by the Day Software Holding AG Board of Directors on April 15, 2009.

Note 12 — Risk Management

General and Financial Risks

Organizational and process measures have been designed to identify and mitigate risks throughout the Company. The Board of Directors of Day has the overall responsibility, on behalf of the Company, to monitor financial and operational risks and risk assessment processes and the appropriate responses to those risks. Operationally, risk assessment is allocated to the Company's senior management, principally its Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Technical Officer and Corporate Controller. These individuals are responsible for coordinating the Company's overall risk assessment, management, and any necessary remediation steps. On a regular basis, these senior managers are responsible for identifying risks and reporting to the Board, and, in certain circumstances, the Audit Committee of the Board, on identified risks and management's reactions to those risks. Where risks are identified, these senior managers, and their staff, are responsible for taking appropriate remediation actions to address those risks.

The Company is exposed to a number financial risks arising from its international operations. The Company's financial risk exposures are predominantly related to liquidity risks, changes in foreign exchange rates, and the creditworthiness of its customers. Financial risk management within the Company is dealt with in the same way overall risk assessment and management is done. Financial risk assessment is allocated to the Company's senior financial management, principally its Chief Financial Officer and Corporate Controller. These individuals are responsible for coordinating the Company's overall financial risk assessment, management, and any necessary remediation steps. On a regular basis, these senior managers are responsible for identifying risks and reporting to the Board, and the Audit Committee of the Board, on identified financial risks and management's reactions to those risks.

Liquidity Risk

Liquidity risk arises if a surplus of financial obligations over available financial assets are due at any point in time. The Company's approach to liquidity risk is to maintain sufficient cash flow and cash to meet its liquidity requirements at any point in time. At December 31, 2008, the Company had TCHF 12,814 of cash and TCHF 9,263 of accounts receivable to meet its liquidity requirements. The Company has no loan facility in place at this time.

Foreign Exchange Risk

The Company operates internationally and therefore is exposed to movements in foreign currencies. Foreign exchange risk arises because of the following transactions

- 1) The functional currencies of the Company's foreign subsidiaries are their respective local currencies as these are the currencies of the primary economic environment in which the subsidiaries operate. These currencies include the U.S. dollar, British Pound, the Euro and the Singapore Dollar. The financial statements of these foreign subsidiaries are translated into the Swiss Franc, the Company's reporting currency, to prepare the consolidated financial statements. The resulting foreign currency translation adjustments are included in other comprehensive income (loss). Changes in the exchange rates of these foreign currencies against the Swiss Franc will result in currency translation effects that could have a significant impact on the Company's consolidated financial statements. The Company does not currently hedge these foreign exchange risks with financial instruments. The Company will continue to be subject to these foreign currency translation effects as long as it continues to conduct business on a global basis.
- 2) The effect of exchange rate fluctuations on intercompany balances (resulting from foreign currency loans) where settlement is not planned or anticipated in the foreseeable future is also included as a component of other comprehensive income (loss). During 2008, most of these loan balances were eliminated by either moving to invest-

ment in subsidiary/paid in capital or by writing off. These intercompany transactions were then eliminated during consolidation. The Company does not currently hedge these foreign exchange risks with financial instruments. The Company will have minimal foreign exchange risk associated with the remaining intercompany balances due to the significant reduction in the balances.

3) The amount of local currency paid or received for transactions (including intercompany transactions where settlement is planned or anticipated in the foreseeable future) denominated in foreign currencies may vary due to changes in exchange rates from date of transaction to date of settlement. The resulting foreign exchange gains and losses from specific foreign currency transactions are included in the consolidated results of operations. Foreign exchange losses were TCHF 2,530 and TCHF 25 for the years ended December 31, 2008 and 2007, respectively.

The foreign exchange losses for 2008 include a TCHF 2,296 non-cash charge resulting from reclassification of foreign exchange losses on intercompany balances accumulated in other comprehensive income (loss) into current year consolidated results of operations as the settlement of these intercompany balances is now planned in the foreseeable future. The foreign exchange losses were due to the declining value of the U.S. dollar, Euro and British Pound against the Swiss Franc during 2008 and 2007. The Company does not currently hedge these foreign exchange risks with financial instruments. During 2008, some of these intercompany balances were eliminated by write off. The Company will settle these remaining intercompany balances as soon as the cash is available to minimize future foreign exchange gains and losses related to these balances.

Note 13 — Related Party Transactions

The spouse of Michael Moppert, the Company's Chairman of the Board of Directors, received cash compensation of TCHF 6 and TCHF 2 in 2008 and 2007, respectively, for consulting services performed for the Company. There were no other related party transactions in 2008 and 2007.

Credit Risk

Credit risk arises from the possibility that the Company's customers may default on their payment obligations to the Company causing financial losses. Historically, the Company has not experienced material losses due to customer defaults, but given the current economic climate, like other companies, it may be exposed to such losses in the future. To mitigate this type of risk, the Company, when appropriate, attempts to actively monitor the financial position of potential customers at the time it is entering into agreements with those customers and to actively monitor its account receivable collections. At December 31, 2008, the Company's account's receivable balance was TCHF 9,263.

Report to the General Meeting of Day Software

Report of the Statutory Auditor to the General Meeting of Day Software Holding AG, Basel



BDO Visura
Audit and Assurance

CH-8031 Zurich, Fabrikstrasse 50
Tel. 044 444 35 55, Fax 044 444 37 66
www.bdo.ch

As statutory auditor, we have audited the financial statements of Day Software Holding AG, which comprise the balance sheets, profit and loss statements and notes on pages 56 to 61 for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Zurich, April 15, 2009
BDO Visura

Andreas Wyss
Auditor in Charge
Swiss Certified Accountant
Licensed Audit Expert

Denis Tornare
Swiss Certified Accountant
Licensed Audit Expert

Day Software Holding AG

Balance Sheets

(in thousands CHF)

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ASSETS	December 31, 2008	December 31, 2007
Current assets		
Cash and cash equivalents	5,658	4,739
Prepaid expenses	-	10
Other receivables	5	-
Treasury shares	244	582
Total current assets	5,907	5,331
Non-current assets		
Property and equipment, net	36	61
Long-term investments and loans in subsidiaries, net	9,588	13,057
Total non-current assets	9,624	13,118
TOTAL ASSETS	15,531	18,449
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Trade payables due to third parties	35	20
Short-term debt due to subsidiaries	5,424	311
Capital lease obligation	36	62
Accrued liabilities	1,094	109
Total liabilities	6,589	502
Shareholders' Equity		
Share capital	14,731	14,374
Legal reserves		
General reserve	1,903	1,581
Reserve for treasury shares	370	620
Accumulated earnings (deficit)	(8,062)	1,372
Total shareholders' equity	8,942	17,947
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	15,531	18,449

See accompanying notes to these financial statements.

Day Software Holding AG

Profit and Loss Statements

(in thousands CHF)

Year Ended December 31	2008	2007
Income		
Interest income	107	-
Reversal of impairment charge on loans in subsidiaries	-	1,901
Increase in value of treasury shares	-	133
Foreign exchange gain	-	3
Equipment rental income	111	101
Total income	218	2,138
Expenses		
Consultancy fees	(426)	(360)
Loan impairment on loans from subsidiary	(1,500)	-
Loan forgiveness on loans from subsidiary	(2,706)	-
Loss on disposition of subsidiary	(3,511)	-
Expenses on disposition of subsidiary	(909)	-
Other expense	(133)	(123)
Decrease in value of treasury shares	(338)	-
Depreciation expense	(25)	(15)
Bank charges	(8)	(7)
Profit (loss) before taxes	(9,338)	1,633
Taxes	(11)	(8)
Net profit (loss)	(9,349)	1,625

See accompanying notes to these financial statements.

Notes to the Financial Statements

(in thousands CHF except share and per share information)

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Note 1 — Treasury shares

In February 2000, the Company acquired 17,066 treasury shares during the second private equity placement at the issuance price of CHF 110.00 per share. During the initial public offering, the Company acquired an additional 45 shares at the issuance price of CHF 440.00 per share. Since acquiring these shares, the Company has issued them from time-to-time, primarily in connection with employment and consulting contracts.

During 2008, the Company acquired 37,316 treasury shares for at total price of TCHF 1,047 at an average price of CHF 28.05 per share and sold 33,276 treasury shares for a total price of TCHF 924 at an average price of

CHF 27.76 per share. During 2007, the Company acquired 74,532 treasury shares for at total price of TCHF 3,098 at an average price of CHF 41.57 per share and sold 76,802 treasury shares for a total price of TCHF 3,478 at an average price of CHF 45.29 per share. There were 17,756 and 13,716 shares of capital stock in the treasury as of December 31, 2008 and 2007, respectively. These treasury shares are valued at market value and are included in current assets as of December 31, 2008 and 2007. The corresponding reserves for treasury shares are calculated based on the First in First Out ("FIFO") method.

Note 2 — Authorized and conditional share capital at December 31

In thousands of CHF	2008	2007
Unissued authorized share capital	7,185	6,760
Unissued conditional share capital	6,828	5,921

Note 3 — Investments in subsidiaries as of December 31, 2008

Subsidiary and Domicile	Functional Currency	Share Capital in thousands	Ownership %
Day Management AG, Basel, Switzerland	CHF	250	100%
Day Software AG, Basel, Switzerland	CHF	100	100%
Day Software GmbH, Munich, Germany	EUR	25	100%
Day Software, Ltd., London, United Kingdom	GBP	2,800	100%
Day Software, Inc., Newport Beach, United States	USD	420	100%
Day Interactive Singapore PTE Ltd., Singapore	SGD	100	100%

Note 4 — Significant shareholders

Shareholders owning more than 3% of the Company as of December 31

Ownership %	2008	2007
Michael Moppert	15.98%	16.04%
Chase Nominees Ltd.	8.54%	8.76%
David Nüschele	8.96%	8.43%
M. Steinemann, D. Steinemann, Forty7 AG (group)	6.69%	5.91%
Mr. Ralf Sievers	4.82%	-
Roger Mäder	0.24%	3.22%

Note 5 — Commitments and Contingencies

Leases

The Company has several noncancelable operating leases and a capital lease for certain office equipment in Europe. These leases expire at various dates ranging from two to three years.

Property and equipment under capital leases was TCHF 36 and TCHF 61 as of December 31, 2008 and 2007, respectively. Accumulated amortization of equipment under capital leases was TCHF 40 and TCHF 15 as of December 31, 2008 and 2007, respectively.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Total rent expense for the years ended December 31, 2008 and 2007 was TCHF 146 and TCHF 85, respectively

The Company's future annual minimum lease payments to be made as of December 31, 2008

In thousands CHF	Capital Lease	Operating Leases
2009	26	29
2010	12	1
Thereafter	–	–
Total	38	30
Less interest	(2)	
Present value of minimum lease payments	36	

Note 6 — Value Added Tax (VAT)

The Company is a member of a VAT Group and is therefore jointly liable for all VAT liabilities of the Group due to the Swiss tax authorities.

Note 7 — Risk Management

The risk management discussed in Note 12 to the Consolidated Financial Statements also covers the specific risks related to Day Software Holding AG, the parent company of the Day Group.

Note 8 — Compensation, Investments and Loans to the Board of Directors and the Executive Management Board - Disclosures as Required by Swiss Law

Compensation paid to Management Board and Board of Directors in 2008

In Thousands of CHF

Name & Function(s)	Salaries	Board Member Fees	Bonus	Car & Expense Allowance	Retirement & Social Security	Value of Options Granted (3)	Total
Management Board (1)							
Erik Hansen, CEO from June 2, 2008 & Member, Board of Directors	210	–	88	19	74	788	1,179
Michael Moppert, CEO to June 2, 2008 & Chairman, Board of Directors	154	34	100	19	80	15	402
David Nüscheler, CTO & Member, Board of Directors	183	–	–	32	24	–	239
Richard Francis, CFO from September 15, 2008	79	–	13	5	3	182	282
Chris Harano, CFO to September 15, 2008	175	–	–	–	9	83	267
Total Management Board	801	34	201	75	190	1,068	2,369
Board of Directors (2)							
Mark Walsh, Non-executive Member	–	23	–	–	–	15	38
Greg Williams, Non-executive Member	–	25	–	–	–	15	40
Ariel Luedi, Non-executive Member	–	20	–	–	1	15	36
Total Board of Directors	–	68	–	–	1	45	114

(1) Includes Management Board members who also hold seats on the Company's Board of Directors.

(2) Excludes members of the Board of Directors who also hold seats on the Management Board.

(3) The value of options granted is calculated by taking the number of options granted during the year multiplied by the grant date fair value of the options calculated using the Black-Scholes option-pricing model as prescribed by SFAS 123R.

Loans to Members of the Board of Directors and the Management Board

There are no outstanding loans.

Compensation and Loans to Related Parties

The spouse of Michael Moppert, the Company's Chairman of the Board of Directors, received cash compensation of TCHF 6 and TCHF 2 in 2008 and 2007, respectively, for consulting services performed for the Company. There were no other related party transactions in 2008 and 2007.

Shares and Option Rights by Members of the Board of Directors and the Management Board of Day Software Holding AG and Subsidiaries

Shares owned and options outstanding held by the Management Board and Board of Directors as of December 31, 2008

In Thousands of CHF

Name & Function(s)	Shares Owned	Options Outstanding	Options Vested	Exercise Price	Expiration Year
Management Board (1)					
Erik Hansen, CEO from June 2, 2008 & Member, Board of Directors	–	55,000	8,020	17.55-31.50	2013
Michael Moppert, CEO to June 2, 2008 & Chairman, Board of Directors	235,396	17,648	16,469	20.10-31.25	2009-2013
David Nüscheler, CTO & Member, Board of Directors	131,965	10,800	10,800	20.10	2009
Richard Francis, CFO from September 15, 2008	–	20,000	1,458	26.30	2013
Chris Harano, CFO to September 15, 2008	–	66,057	62,175	21.00-35.00	2009
Total Management Board	367,361	169,505	98,922		
Board of Directors (2)					
Mark Walsh, Non-executive Member	–	25,848	22,502	17.65-32.00	2011-2018
Greg Williams, Non-executive Member	–	16,155	12,809	17.65-32.00	2009-2018
Ariel Luedi, Non-executive Member	–	21,348	16,502	23.00-32.00	2010-2013
Total Board of Directors	–	63,351	51,813		

(1) Includes Management Board members who also hold seats on the Company's Board of Directors.

(2) Excludes members of the Board of Directors who also hold seats on the Management Board.

Proposed Appropriation of Annual Results

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The Board of Directors recommends that the net loss for the year ended December 31, 2008 be carried forward to the accumulated deficit.

**Share Data
and
Other
Information**

Share Data and Other Information

Stock exchange	SIX Swiss Exchange
Security type	Registered Shares
Security number	1047421
Symbol	DAYN
First listing date	April 3, 2000
Nominal value	CHF 10
Issue price	CHF 440

Stock exchange	U.S. Over-The-Counter
Security type	American Depositary Receipts
Security number	CUSIP 23954P102
Symbol	DYIHY

The shareholder meeting of Day Software Holding AG will take place on May 19, 2009 in Basel, Switzerland.

About Day

Day is a 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 SIX Swiss Exchange (Symbol: DAYN) since April 2000. Day's securities are also traded in the U.S.'s Over-The-Counter market in the form of American Depositary Receipts (Symbol: DYIHY). 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.

A warning regarding 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"). Actual events or results, of course, could differ materially. We refer you to the "Risk Factors" section of the Company's Offering Circular, which can be downloaded from the "Investor Relations" section of the Company's website at www.day.com. The Company's Offering Circular contains and identifies important factors that could cause actual results to differ materially from those contained in any forward-looking statements. Among the important factors which could cause the Company's actual results to differ materially from such forward-looking statements are its limited operating history, its need to stay on the forefront of technological development within its industry, and its ability to expand into new geographic markets. 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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