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2005



# Day Software Report for the First Quarter of Fiscal Year 2005

## Results in Detail

Revenues for the first quarter of 2005 amounted to CHF 4.1 million, as compared to CHF 3.7 million for the first quarter of 2004. License revenues for the first quarter of 2005 amounted to CHF 1.9 million or 46% of total revenues, as compared to CHF 1.4 million for the first quarter of 2004 or 38% of total revenues. This increase in license revenues is due to two significant contracts that closed in the first quarter of 2005. Maintenance revenues for the first quarter of 2005 increased 11% to CHF 1.0 million, as compared to CHF 0.9 million for the first quarter of 2004 as Day Software (the "Company") continues to grow its customer base. Service revenues, excluding maintenance, for the first quarter of 2005 decreased 14% to CHF 1.2 million, as compared to CHF 1.4 million for the first quarter of 2004.

In Europe, Day generated CHF 2.4 million in revenues in the first quarter of 2005, of which CHF 1.8 million were generated outside of Switzerland. In the United States, Day generated CHF 1.7 million in revenues in the first quarter of 2005, accounting for 42% of revenues in this period. United States and the United Kingdom were Day's largest contributors of revenues in the first quarter of 2005. Day's subsidiary in the United Kingdom, MarketingNet, contributed CHF 0.3 million of revenues for the first quarter of 2005.

Revenues for the first quarter of 2005 increased 71% to CHF 4.1 million, as compared to CHF 2.4 million for fourth quarter of 2004. License revenues for the first quarter of 2005 increased 375% to CHF 1.9 million, as compared to CHF 0.4 million for the fourth quarter of 2004. This increase is due to two significant contracts that closed in the first quarter of 2005. Maintenance revenues for the first quarter of 2005 and the fourth quarter of 2004 amounted to CHF 1.0 million. Service revenues, excluding maintenance, for the first quarter of 2005 increased 33% to CHF 1.2 million, as compared to CHF 0.9 million for the fourth quarter of 2004.

Gross profit for the first quarter of 2005 increased 11% to CHF 3.0 million, as compared to CHF 2.7 million for the first quarter of 2004 and increased 150% from CHF 1.2 million for the fourth quarter of 2004. The gross profit margin for the first quarter of 2005 increased to 74%, as compared to 73% in the first quarter of 2004 and 53% in the fourth quarter of 2004. The increase in gross profit and gross profit margin for the first quarter of 2005 as compared to the first quarter of 2004 and the fourth quarter of 2004 is primarily due to the significant increase in license revenues in the first quarter of 2005 due to two significant contracts for the quarter.

Operating expenses for the first quarter of 2005 decreased 9% to CHF 3.0 million, as compared to CHF 3.3 million for the first quarter of 2004. Research and development expenses decreased 39% due to the capitalization of CHF 0.5 million of costs incurred on the Company's new content infrastructure product line CRX after technological feasibility for the product was established during the first quarter of 2005 but prior to the product availability for commercial sale. Sales and marketing expenses decreased 3%. General and administrative expenses increased 9% due to additional professional fees.

Compared to the fourth quarter of 2004, operating expenses for the first quarter of 2005 decreased 30% to CHF 3.0 million from CHF 4.3 million primarily due to a CHF 1.0 million impairment charge on goodwill and intangible assets in the fourth quarter of 2004 and the capitalization of CHF 0.5 million of software development costs on the Company's new content infrastructure product line CRX in the first quarter of 2005.

Net income for the first quarter of 2005 was TCHF 120, as compared to a net loss of TCHF 515 for the first quarter of 2004 and a net loss of TCHF 2,994 for the fourth quarter of 2004. Basic earnings per share was CHF 0.10 for the first quarter of 2005, as compared to basic loss per share of CHF 0.45 for the first quarter of 2004 and basic loss per share of CHF 2.50 for the fourth quarter of 2004. Dilutive earnings per share was CHF 0.09 for the first quarter of 2005, as compared to dilutive loss per share of CHF 0.45 for the first quarter of 2004 and dilutive loss per share of CHF 2.50 for the fourth quarter of 2004.

As of March 31, 2005, cash and cash equivalents amounted to CHF 3.3 million, down from CHF 4.5 million as of December 31, 2004. Total cash decrease for the first quarter of 2005 was CHF 1.2 million, compared to total cash decrease of CHF 1.4 million in the fourth quarter of 2004. Accounts receivable increased to CHF 4.1 million at March 31, 2005 compared to CHF 2.6 million at December 31, 2004. Deferred revenues increased to CHF 3.7 million at March 31, 2005 compared to CHF 2.2 million at December 31, 2004. Days-sales outstanding decreased to 90 days in the first quarter of 2005 from 101 days in the fourth quarter of 2004.

## **New Product Line**

In addition to its continued growth in the global content management market, Day Software successfully launched the Beta version of its new content infrastructure product line CRX in the first quarter of 2005. CRX is the industry's first full implementation of JSR 170, the future standard for enterprise content. The Company reported over 500 downloads in the first 100 days of the launch, over a dozen Beta customers and the first commercial contract for the new product line. The Company expects CRX to have a similar market potential as its existing content management products.

JSR 170 is a new standard that defines the interaction between a business application and the repository where the application stores content. Day Software initialized this standard three years ago and is leading an international industry expert group that develops JSR 170. The JSR 170 initiative has gained the support of all major industry players such as IBM, Oracle, Sun and SAP. The final release of the standard is expected for Q2 2005. In parallel with the final release of the standard, Day Software will make a full commercial implementation of the standard available to the industry.

## **Customer Support**

New major customers added in the first quarter of 2005 include Credit Suisse First Boston, Deutsche Bank and On Command.

## **Employees**

Total headcount as of March 31, 2005 and 2004 was 84 and 83 full time employees, respectively. Headcount as of March 31, 2005 was allocated as follows: professional services 18%, research and development 24%, sales and marketing 25%, general and administration 14% and MarketingNet 19%.

## Consolidated Balance Sheets

(in thousands CHF)

(unaudited)

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,250	4,500
Accounts receivable, net	4,120	2,638
Unbilled receivables	1,028	155
Other receivables	36	424
Prepaid expenses	730	228
<b>Total current assets</b>	<b>9,164</b>	<b>7,945</b>
<b>Non-current assets</b>		
Property and equipment, net	383	603
Capitalized software development costs	475	-
Investments	249	91
Goodwill and intangible assets, net	3,464	3,511
Other assets	567	333
<b>Total non-current assets</b>	<b>5,138</b>	<b>4,538</b>
<b>TOTAL ASSETS</b>	<b>14,302</b>	<b>12,483</b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	597	400
Deferred revenues	3,744	2,224
Other current liabilities	253	181
Accrued liabilities	1,196	1,597
<b>Total current liabilities</b>	<b>5,790</b>	<b>4,402</b>
Commitments and contingencies		
<b>Shareholders' equity</b>		
Share capital	12,367	12,097
Treasury shares (9,897 shares at March 31, 2005 and 9,762 shares at December 31, 2004, at cost)	(1,077)	(1,074)
Capital reserves	138,329	138,299
Accumulated deficit	(140,532)	(140,652)
Accumulated other comprehensive loss	(575)	(589)
<b>Total shareholders' equity</b>	<b>8,512</b>	<b>8,081</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>14,302</b>	<b>12,483</b>

## Consolidated Statements of Operations

(in thousands CHF, except share information)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
Software licenses	1,904	1,424
Services	2,223	2,257
<b>Total revenues</b>	<b>4,127</b>	<b>3,681</b>
<b>Cost of revenues</b>		
Software licenses	1	5
Services	1,084	983
<b>Total cost of revenues</b>	<b>1,085</b>	<b>988</b>
<b>Gross profit</b>	<b>3,042</b>	<b>2,693</b>
<b>Operating expenses</b>		
Research and development	478	786
Sales and marketing	1,711	1,763
General and administrative	754	691
Amortization of intangible assets	47	47
Stock-based compensation	-	4
<b>Income (Loss) from operations</b>	<b>52</b>	<b>(598)</b>
Interest income	5	5
Interest expense	-	(1)
Foreign exchange loss	19	(2)
Other income	47	83
<b>Income (Loss) before income taxes</b>	<b>123</b>	<b>(513)</b>
Provision for income taxes	(3)	(2)
<b>Net income (loss)</b>	<b>120</b>	<b>(515)</b>
Other comprehensive income	14	54
<b>Comprehensive income (loss)</b>	<b>134</b>	<b>(461)</b>
<b>Basic earnings (loss) per share</b>	<b>0.10</b>	<b>(0.45)</b>
<b>Dilutive earnings (loss) per share</b>	<b>0.09</b>	<b>(0.45)</b>
<b>Shares used in computing basic earnings (loss) per share</b>	<b>1,208,892</b>	<b>1,150,208</b>
<b>Shares used in computing dilutive earnings (loss) per share</b>	<b>1,325,029</b>	<b>1,150,208</b>

## Consolidated Statements of Cash Flows

(in thousands CHF)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Net income (loss)</b>	120	(515)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities</b>		
Depreciation of fixed assets	231	289
Amortization of intangible assets	47	47
Net foreign currency exchange (gain) loss	(15)	4
Stock-based compensation	7	4
Stock received in exchange for software	(129)	-
Capitalized software development cost	(475)	-
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	(1,437)	2,598
Unbilled receivables	(858)	19
Prepaid expenses and other current assets	(108)	(449)
Other assets	(217)	-
Accounts payable	176	59
Deferred revenues	1,446	(338)
Accrued liabilities	(421)	(521)
Other current liabilities	68	(378)
<b>Net cash provided by (used in) operating activities</b>	<b>(1,565)</b>	<b>819</b>
<b>Cash flows from investing activities</b>		
Purchases of equipment	(6)	(19)
Proceeds from sale of equipment	-	1
<b>Net cash used in investing activities</b>	<b>(6)</b>	<b>(18)</b>
<b>Cash flows from financing activities</b>		
Proceeds from stock option exercises	293	741
Purchase of treasury shares	(38)	-
Proceeds from sale of treasury shares	35	-
<b>Net cash provided by financing activities</b>	<b>290</b>	<b>741</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,281)</b>	<b>1,542</b>
Foreign currency adjustment on cash	31	39
Cash and cash equivalents at beginning of period	4,500	5,344
<b>Cash and cash equivalents at end of period</b>	<b>3,250</b>	<b>6,925</b>

## Consolidated Statements of Shareholders' Equity

(in thousands CHF, except share information)

(unaudited)

	Share Capital		Treasury Shares	Capital Reserves	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
<b>Balances</b>							
<b>January 1, 2004</b>	<b>1,125,310</b>	<b>11,253</b>	<b>(1,074)</b>	<b>138,170</b>	<b>(135,139)</b>	<b>(599)</b>	<b>12,611</b>
Proceeds from exercise of stock options	84,344	844	-	90	-	-	934
Stock-based compensation	-	-	-	39	-	-	39
Net loss	-	-	-	-	(5,513)	-	(5,513)
Foreign currency translation	-	-	-	-	-	10	10
<b>Balances</b>							
<b>December 31, 2004</b>	<b>1,209,654</b>	<b>12,097</b>	<b>(1,074)</b>	<b>138,299</b>	<b>(140,652)</b>	<b>(589)</b>	<b>8,081</b>
Proceeds from exercise of stock options	27,000	270	-	23	-	-	293
Purchase of treasury shares	-	-	(38)	-	-	-	(38)
Proceeds from sale of treasury shares	-	-	35	-	-	-	35
Stock-based compensation	-	-	-	7	-	-	7
Net income	-	-	-	-	120	-	120
Foreign currency translation	-	-	-	-	-	14	14
<b>Balances</b>							
<b>March 31, 2005</b>	<b>1,236,654</b>	<b>12,367</b>	<b>(1,077)</b>	<b>138,329</b>	<b>(140,532)</b>	<b>(575)</b>	<b>8,512</b>

## Notes to Consolidated Interim Financial Statements for the Three Months Ended March 31, 2005

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

### **Note 1 – Organization and History**

#### **The Company**

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

### **Note 2 – Summary of Significant Accounting Policies**

#### **Basis of Presentation**

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

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

#### **Principles of Consolidation**

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

### **Note 3 – Investments**

The Company has an equity investment totaling TCHF 153 in common stock and TCHF 96 in preferred stock of a non-publicly traded company (“investee”). The Company’s Chief Financial Officer is a member of the Board of Directors of the investee company. The common stock was acquired in March of 2005 in exchange for software license and maintenance sold and is carried at cost which was determined by reference to the value of the software license and maintenance exchanged. The preferred stock was acquired in 2004 in exchange for software license and maintenance sold and is carried at cost which was determined by reference to recent private-placement sales of the investee’s common stock. The carrying value of the investment was TCHF 249 as of March 31, 2005.

### **Note 4 – Capitalized Software Development Costs**

SFAS No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,” requires development costs incurred in the research and development of new software products to be sold or marketed to be expensed as incurred until technological feasibility in the form of a working model has been established at which time such costs are capitalized, subject to recoverability. The Company established technological feasibility with its new content infrastructure product line CRX upon completion of a working model in the first quarter of 2005. Accordingly, software costs capitalized during the three months ended March 31, 2005 totaled TCHF 475.

### **Note 5 – Earning (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) available to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share calculated for the three months ended March 31, 2005 is computed by dividing net income available to shareholders by the weighted average number of shares outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method. Potentially dilutive common shares include outstanding stock options. Diluted loss per share calculated for the three months ended March 31, 2004 is the same as basic loss per share as the effect of the assumed exercise of common stock equivalents is anti-dilutive due to the Company’s net losses for the period. Common stock equivalents totaling 30,749 and 239,533 have been excluded from the calculation of the weighed average shares outstanding for the three months ended March 31, 2005 and 2004, respectively, as the effects are anti-dilutive.

## Note 6 – Stock-based Compensation

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

**The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value based method to all outstanding and unvested awards in the three months ended March 31, 2005 and 2004:**

	2005	2004
Net Income (Loss), as reported	120	(515)
Less: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(293)	(223)
Net loss, pro forma	<u>(173)</u>	<u>(738)</u>
Basic Earnings (Loss) per share, as reported	0.10	(0.45)
Basic Loss per share, pro forma	(0.14)	(0.64)
Dilutive Earnings (Loss) per share, as reported	0.09	(0.45)
Dilutive Loss per share, pro forma	(0.14)	(0.64)

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

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

## Note 7 – Segment Information

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

Geographical revenue information is based on the origin of the sales. Segments by geographic area of origin are as follows for the three months ended March 31, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
Europe	2,390	2,535
Americas	1,728	1,118
Asia Pacific	39	28
Elimination of intergeographic revenues	(30)	-
<b>Total revenues</b>	<u>4,127</u>	<u>3,681</u>
<b>Net Income (Loss)</b>		
Europe	(622)	(737)
Americas	742	222
<b>Total net income (loss)</b>	<u>120</u>	<u>(515)</u>
<b>Assets</b>		
Europe	11,407	15,255
Americas	2,895	2,692
<b>Total assets</b>	<u>14,302</u>	<u>17,947</u>

## **About Day (www.day.com)**

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

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

## **Forward-looking Statements**

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

## **For further information**

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