ARTEMIS INTERNATIONAL SOLUTIONS CORP
Form 10-Q
November 14, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended September 30, 2005

or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 000-29793

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**13-4023714**
(State of Incorporation)	(I.R.S. Employer Identification Number)

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

There were 10,829,587 shares of common stock outstanding as of October 28, 2005.

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2005

TABLE OF CONTENTS

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	September 30, 2005 (Unaudited)	December 31, 2004
Current assets:		
Cash and cash equivalents	$ 3,664	$ 3,720
Trade accounts receivable, net	8,682	12,041
Other accounts receivable	433	709
Prepaid expenses	1,201	1,313
Other current assets	258	379
Total current assets	14,238	18,162
Property and equipment, net	569	1,008
Intangible assets, net		1,489
Investment in affiliates and other assets	1,036	1,661
Total assets	$ 15,843	$ 22,320
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 2,905	$ 3,030
Accrued liabilities	3,223	4,385
Accrued payroll and related taxes	3,401	5,360
Deferred revenue	5,254	5,047
Short-term debt and line of credit, net	4,091	3,739
Current portion of long-term debt	699	21
Total current liabilities	19,573	21,582
Accrued pension and other liabilities	4,183	4,465
Deferred taxes	40	160
Long-term debt, less current portion	1,626	1,918
Total liabilities	25,422	28,125
Commitments and contingencies		
Stockholders deficit:		
Series A convertible preferred stock, liquidation preference of $9,000,000 $0.001 par value, 25,000,000 shares authorized, 4,090,909 issued and outstanding	4	4
Common stock, $0.001 par value, 50,000,000 shares authorized, 10,829,257 shares issued and outstanding at September 30, 2005 and 10,245,233 shares issued and outstanding at December 31, 2004	11	10
Additional paid-in capital, net of issuance costs	90,282	89,616
Accumulated deficit	(96,163)	(92,676)
Accumulated other comprehensive (loss)	(3,713)	(2,759)
Total stockholders (deficit)	(9,579)	(5,805)
Total liabilities and stockholders deficit	$ 15,843	$ 22,320

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

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenue:				
Software	$ 1,698	$ 2,388	$ 7,819	$ 8,513
Support	4,297	4,299	13,104	12,816
Services	4,080	4,322	13,493	16,727
	10,075	11,009	34,416	38,056
Cost of revenue:				
Software	144	53	305	146
Support	1,166	1,481	3,714	4,342
Services	3,391	3,814	11,143	13,362
	4,701	5,348	15,162	17,850
Gross margin	5,374	5,661	19,254	20,206
Operating expenses:				
Selling and marketing	3,377	2,969	11,197	10,567
Research and development	1,872	1,689	5,776	5,797
General and administrative	1,531	1,798	5,252	6,475
Amortization expense	212	1,030	1,489	3,088
Restructuring charges		654		2,049
	6,992	8,140	23,714	27,976
Operating loss	(1,618)	(2,479)	(4,460)	(7,770)
Interest expense, net	211	236	525	444
Other (income) expense, net	(188)	60	(1,164)	(219)
Foreign exchange (gain) loss	(463)	261	(857)	352
	(440)	557	(1,496)	577
Loss before income taxes	(1,178)	(3,036)	(2,964)	(8,347)
Income tax expense	169	(63)	523	318
Net loss	$ (1,347)	$ (2,973)	$ (3,487)	$ (8,665)
Loss per common share:				
Basic	$ (0.12)	$ (0.30)	$ (0.33)	$ (0.87)
Diluted	$ (0.12)	$ (0.30)	$ (0.33)	$ (0.87)
Weighted average common shares used in computing loss per common share	10,826	9,965	10,666	9,965

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

4

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30, 2005		Nine Months Ended September 30, 2004	
Cash flow from operating activities:				
Net loss	$	(3,487)	$	(8,665)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		1,809		3,598
Gain on the disposition of affiliated entity		(756)		
Disposition of assets		54		(93)
Changes in operating assets and liabilities:				
Decrease in trade accounts receivable		3,359		3,421
Decrease in prepaid expenses and other assets		1,061		676
Increase in deferred revenues		207		(656)
Decrease in accounts payable and other liabilities		(3,432)		(4,625)
Net cash used in operating activities		(1,185)		(6,344)
Cash flow from investing activities:				
Capital expenditures, net		(152)		(259)
Proceeds from the sale of investee		830		
Net cash provided by (used in) investing activities		678		(259)
Cash flow from financing activities:				
Proceeds from exercise of stock options and warrants, net of taxes		33		
Proceeds from the issuance of Series A Preferred Stock, net of issuance costs				8,710
Net increase in short-term debt and line of credit		1,030		
Net repayments on lines of credit				1,641
Principal borrowings of debt		342		(42)
Net cash provided by financing activities		1,405		10,309
Effect of foreign currency exchange rate changes on cash and cash equivalents		(954)		100
Net increase in cash and cash equivalents		(56)		3,806
Cash and cash equivalents at the beginning of the period		3,720		2,593
Cash and cash equivalents at the end of the period	$	3,664	$	6,399
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for interest	$	270	$	221
Cash paid during the period for income taxes	$	496	$	618

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

See the accompanying notes for additional information on non-cash investing and financing activities.

5

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2005
(Unaudited)

(all tabular amounts in thousands except per share amounts)

Note 1. Organization

Artemis International Solutions Corporation, including its subsidiaries (Artemis , the Company, or we), is one of the world s leading providers of investment planning and control software and services. Since 1976 the Company has been helping organizations improve their performance through portfolio, project and resource management.

Customers use the Company s software and services in such key areas as (i) developing and launching new products, (ii) IT management and governance, (iii) maintaining nuclear power stations, (iv) helping governmental agencies promote business efficiency through better alignment and allocation of resources and (v) managing defense programs such as the Joint Strike Fighter program for the US government. The Company has an international distribution network in over 44 countries.

As of September 30, 2005, approximately 74% (or 54%, assuming conversion of all preferred shares) of the Company s outstanding common stock was owned by Proha Plc (Proha), a Finnish Company.

Artemis common stock is quoted on the Over-the-Counter Bulletin Board administered by Nasdaq under the symbol AMSI .

Note 2. Basis of Presentation

The accompanying condensed balance sheet as of December 31, 2004, which has been derived from audited financial statements, and the unaudited interim condensed financial statements of Artemis, which include the accounts of its wholly owned subsidiaries for the nine month periods ended September 30, 2005 and 2004 and the related footnote information have been prepared on a basis substantially consistent with the Company s audited consolidated financial statements as of December 31, 2004 contained in the Company s annual report on Form 10-K, as filed with the Securities and Exchange Commission (the Annual Report). All significant inter-company transactions have been eliminated. Equity investments in which Artemis owns at least 20% of the voting securities, or exercises significant influence over (either individually or in concert with its parent, Proha), are accounted for using the equity method. Investments in which the Company owns less than 20% and is not able to exercise significant influence over the investee are accounted for under the cost method of accounting.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in the Company s Annual Report. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which, except as described elsewhere herein, consisted only of normal recurring adjustments) which management considers necessary to present fairly the financial position of the Company at September 30, 2005 and the results of operations for the three and nine month periods ended September 30, 2005 and 2004 and cash flows for the nine months ended September 30, 2005 and 2004. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results anticipated for the entire year ending December 31, 2005.

The Company s independent public accountants have included a going concern explanatory paragraph in their audit report on the December 31, 2004 consolidated financial statements, which have been prepared assuming that the Company will continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. At September 30, 2005, the Company s current liabilities exceeded current assets by approximately $5.3 million. The Company has taken a number of actions to improve its financial strength and cash availability including but not limited to restructuring actions taken in 2004. On June 16, 2004, the Company completed a private placement of $9.0 million of convertible preferred stock (see Note 10). Proceeds from the financing were used for (i) working capital, (ii) the repayment of debt and (iii) to strengthen the Company s financial position. During the third quarter of 2005, the Company entered into a loan agreement with a financial institution in Japan for approximately $2.1 million (see Note 9).

Prior to the private placement, the Company entered into a $5.0 million asset-based lending facility with Laurus Master Fund, Ltd (Laurus) in August 2003, which was amended on July 30, 2004 (see Note 9) to increase the Company s financial flexibility. Approximately $3.9 million were outstanding under this facility as of September 30, 2005. The Company also has other lending facilities available to certain of its subsidiaries, such as in Japan, France and Italy.

In addition to the lending facilities available to the Company, management has taken steps to reduce and defer discretionary spending to more closely match expenses with actual and projected revenues.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions regarding revenue recognition, and the recoverability of intangible assets that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Stock-Based Incentive Compensation

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation -Transition and Disclosure an amendment of SFAS No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As provided in SFAS No. 123, the Company has elected to apply APB Opinion No. 25 Accounting for Stock Issued to Employees and related interpretations in accounting for its stock-based employee compensation plans. APB No. 25 does not require options to be expensed when granted with an exercise price equal to or greater than the grant-date market value. The Company is complying with the disclosure requirements of SFAS No. 148.

Had the Company determined compensation cost based on the fair value at the grant date for its options under SFAS No. 123, the Company s net loss would have been increased to the pro forma amount indicated below:

	Three Months Ended Septembr 30, 2005	Three Months Ended Septembr 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(Unaudited)		(Unaudited)	
Net loss as reported	$ (1,347)	$ (2,973)	$ (3,487)	$ (8,665)
Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model	(97)	(693)	(275)	(992)
Pro forma net loss	$ (1,444)	$ (3,666)	$ (3,762)	$ (9,657)
Basic and diluted loss per common share				
As reported	$ (0.12)	$ (0.30)	$ (0.33)	$ (0.87)
Pro forma	$ (0.13)	$ (0.37)	$ (0.35)	$ (0.97)

Note 4. Significant Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123-R which replaces SFAS No. 123, *Accounting for Stock-Based Compensation* , and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* . As originally issued, SFAS No. 123 established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that pronouncement permitted entities to continue applying the intrinsic-value-based model of APB Opinion 25, provided that the financial statements disclosed the pro forma net income or loss based on the fair-value method. The Company is required to apply SFAS No. 123-R as of the first interim reporting period that begins after December 31, 2005 as required under a new rule adopted by the SEC on April 14, 2005, that amends the compliance dates of SFAS No. 123-R. Thus, the Company s consolidated financial statements will reflect an expense for (a) all share-based compensation arrangements granted after December 31, 2005 and for any such arrangements that are modified, cancelled, or repurchased after that date, and (b) the portion of previous share-based awards for which the requisite service has not been rendered as of that date, based on the grant-date estimated fair value of those awards.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20 and FASB Statement No. 3. This pronouncement applies to all voluntary changes in accounting principle, and revises the requirements for accounting for and reporting a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle, unless it is impracticable to do so. This pronouncement also requires that a change in the method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS No. 154 retains many provisions of APB Opinion 20 without change, including those related to reporting a change in accounting estimate, a change in the reporting entity, and correction of an error. The pronouncement also carries forward the provisions of SFAS No. 3 which govern reporting accounting changes in interim financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS No. 154.

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

Note 5. Basic and Diluted Loss Per Common Share

The Company calculates earnings or loss per common share in accordance with SFAS No. 128, *Earnings Per Share*. Accordingly, basic loss per common share excludes dilution for potentially dilutive securities and is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. When a company is in a loss position, basic and diluted loss per common share are the same.

The following table sets forth the computation of basic and diluted loss per common share:

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(in thousands, except per share amounts) (Unaudited)			
Numerator:				
Net loss	$ (1,347)	$ (2,973)	$ (3,487)	$ (8,665)
Denominator:				
Weighted average outstanding shares of common stock	10,826	9,965	10,666	9,965
Basic and diluted loss per common share	$ (0.12)	$ (0.30)	$ (0.33)	$ (0.87)

Note 6. Comprehensive Loss

Comprehensive loss consists of net loss, adjusted for other increases or decreases affecting stockholders equity that are excluded in the determination of net loss. The calculation of comprehensive loss for the three and nine months ended September 30, 2005 and 2004 is as follows:

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(Unaudited)		(Unaudited)	
Net loss	$ (1,347)	$ (2,973)	$ (3,487)	$ (8,665)
Translation income (loss)	(323)	346	(956)	100
Comprehensive loss	$ (1,670)	$ (2,627)	$ (4,443)	$ (8,565)

Note 7. Segment and Geographic Information

Income from operations is assigned by region based upon management responsibility. The Company has assigned its management responsibilities to cover four geographic areas: Americas, EMEA (Europe, Middle East, and Africa), Japan, and Asia. Each geographic area is managed by an executive vice president of the Company. The following table presents financial information about the Company s operations by geographic region:

Three Months Ended September 30, 2005

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 349	$ 1,029	$ 297	$ 23	$ 1,698
Support	1,261	2,507	441	88	4,297
Services	481	2,694	839	66	4,080
Total revenue	2,091	6,230	1,577	177	10,075
Cost of revenue:					
Software	1	69	74		144
Support	299	799	53	15	1,166
Services	367	2,487	439	98	3,391
Total cost of revenue	667	3,355	566	113	4,701
Gross margin	1,424	2,875	1,011	64	5,374
Operating income (loss)	$ (1,256)	$ (583)	$ 377	$ (156)	$ (1,618)

Three Months Ended September 30, 2004

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 682	$ 1,375	$ 168	$ 163	$ 2,388
Support	1,231	2,578	416	74	4,299
Services	651	2,929	589	153	4,322
Total revenue	2,564	6,882	1,173	390	11,009
Cost of revenue:					
Software	20	(2)	33	2	53
Support	396	912	145	28	1,481
Services	541	2,868	326	79	3,814
Total cost of revenue	957	3,778	504	109	5,348
Gross margin	1,607	3,104	669	281	5,661
Operating income (loss)	$ (1,781)	$ (995)	$ 238	$ 59	$ (2,479)

Nine months Ended September 30, 2005

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 1,251	$ 4,853	$ 1,244	$ 471	$ 7,819
Support	3,752	7,711	1,395	246	13,104
Services	1,498	9,924	1,831	240	13,493
Total revenue	6,501	22,488	4,470	957	34,416
Cost of revenue:					
Software	2	186	115	2	305
Support	976	2,457	223	58	3,714
Services	1,309	8,525	1,046	263	11,143
Total cost of revenue	2,287	11,168	1,384	323	15,162
Gross margin	4,214	11,320	3,086	634	19,254
Operating income (loss)	$ (4,930)	$ (664)	$ 1,218	$ (84)	$ (4,460)

Nine months Ended September 30, 2004

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 1,816	$ 5,422	$ 800	$ 475	$ 8,513
Support	3,703	7,568	1,325	220	12,816
Services	2,841	11,843	1,595	448	16,727
Total revenue	8,360	24,833	3,720	1,143	38,056
Cost of revenue:					
Software	37	39	68	2	146
Support	1,208	2,614	426	94	4,342
Services	2,301	9,793	1,018	250	13,362
Total cost of revenue	3,546	12,446	1,512	346	17,850
Gross margin	4,814	12,387	2,208	797	20,206
Operating income (loss)	$ (6,958)	$ (1,540)	$ 687	$ 41	$ (7,770)

Note 8. Commitments and Contingencies

The Company is a party to a number of legal claims arising in the ordinary course of its business. The Company believes the ultimate resolution of these claims will not have a material effect on its financial position, results of operations or cash flows.

The Company has employment agreements and arrangements with its executive officers and certain other key employees. Such agreements generally continue until terminated by the executive or the Company, and provide for severance payments, bonuses or other benefits under certain circumstances.

10

Note 9. Debt

On August 14, 2003, the Company entered into an agreement with Laurus and received a $5.0 million revolving credit facility (the Laurus Facility) in the form of a three-year convertible note (the Secured Convertible Note) secured by an interest in all of the Company s property and assets located in the United States (US) and the United Kingdom (UK), except for intellectual property rights. Borrowings under the Laurus Facility were based on the balance of eligible trade accounts receivable reported by the Company s operating entities in the US and the UK. The Laurus Facility was to automatically renews every three years unless cancelled by the Company or Laurus.

In June 2004, the Company used $2.2 million of the net proceeds of the private placement of $9.0 million of convertible preferred stock (the Preferred Series A Financing) completed on June 16, 2004 (see Note 10) to reduce the amount outstanding under the Laurus Facility from $3.5 million to $1.3 million. On July 30, 2004, the Company and Laurus agreed to amend the Laurus Facility by replacing the Secured Convertible Note of up to $5.0 million with a Secured Convertible Minimum Borrowing Note (the Minimum Borrowing Note) in the amount of $1.5 million and a Secured Revolving Note of up to $3.5 million (collectively the Laurus Restructuring). Effective upon the execution of the Laurus Restructuring documents on July 30, 2004, the $1.3 million outstanding under the Laurus Facility was incorporated as monies provided by Laurus under the Minimum Borrowing Note. In August 2004, Laurus provided Artemis an additional $0.2 million under the Minimum Borrowing Note, thereby exhausting the funds available to Artemis under the Minimum Borrowing Note.

The Minimum Borrowing Note is due on August 26, 2006 and is convertible into common stock of the Company at the option of the holder at the following prices: 190,000 shares at $1.45 per share, 190,000 shares at $1.81 per share, and 342,646 shares at $2.57 per share, totaling 722,646 shares of common stock of the Company. Loans exceeding $1.5 million may be available to the Company under the Secured Revolving Note, based on the balance of the Company s eligible trade accounts receivable. If the balance on the Minimum Borrowing Note is zero, such portion of the balance of the Secured Revolving Note that exceeds $1.0 million shall be deemed to be extinguished on the Secured Revolving Note and transferred to a new serialized Minimum Borrowing Note. Once a new serialized Minimum Borrowing Note reaches $1.5 million, the Company is required to file a registration statement with the SEC to register the shares underlying the new serialized Minimum Borrowing Note. Thereafter, except as amended on March 31, 2005 (see below), the conversion price adjusts to 105% of the average closing market price of the Company s common stock for the five trading days immediately preceding each additional serialized $1.5 million Minimum Borrowing Note. All of the aforementioned conversion prices are subject to an anti-dilution provision in the form of a price protection clause. Under the terms of the related agreement, absent an event of default as defined, conversion of the Minimum Borrowing Note into the Company s common stock may not result in beneficial ownership by Laurus (including shares issuable under the warrants issued to Laurus in conjunction with the Laurus Facility that are exercisable within sixty days of any determination date) of more than 2.5% of the Company s outstanding common stock. The Minimum Borrowing Note has a 30% prepayment penalty. Any loans under the Secured Revolving Note are convertible only in an event of default. The Company currently has no loans outstanding under the Secured Revolving Note.

During the first half of 2005 Laurus converted a total of $635,000 of the outstanding $1.5 million Minimum Borrowing Note in exchange for 385,978 shares of the Company s common stock, leaving $865,000 outstanding under the Minimum Borrowing Note as of September 30, 2005 which was classified under Short-term debt and line of credit, net in the accompanying condensed consolidated balance sheet.

On March 31, 2005, the Company and Laurus executed a Waiver Letter and Amendment (the Letter Agreement). Pursuant to the terms of the Letter Agreement, the Company received $2,850,000, net of fees of $150,000, on March 31, 2005 in the form of a revolving credit advance (the Advance) under the existing $5.0 million facility with Laurus. The Advance bears interest of one percent (1.00%) per month and becomes due on January 1, 2006. At September 30, 2005, the Advance of $3,000,000 was classified under Short-term debt and line of credit, net in the accompanying condensed consolidated balance sheet. The parties further agreed that the conversion price with respect to the next Minimum Borrowing Note (as defined in Amendment No. 1 to the Security Agreement, dated July 30, 2004) as may be issued after March 31, 2005 shall be equal to the lesser of (i) $2.92 per share or (ii) 105% of the volume weighted average closing price for the Company s common stock on the principal market, or on any securities exchange or other securities market on which the common stock is then listed or quoted, for the five trading days immediately prior to the $1,500,000 aggregation of such new Minimum Borrowing Note.

On March 1, 2004, the Company s wholly-owned subsidiary in Finland, Artemis Finland Oy (Artemis Finland), entered into a loan agreement with a financial institution in the amount of approximately $3.1 million (or 2.5 million Euro). The loan amount has been fully repaid in three installments through April 1, 2005 (See Note 11).

On August 12, 2005, the Company s wholly-owned subsidiary in Japan, Artemis International KK (Artemis Japan) entered into a loan agreement with a financial institution in the amount of approximately $2.1 million (or 233 million Yen). The loan bears interest at 1.95% per annum and is due in monthly installments through July 31, 2008. The proceeds from the loan were used to acquire certain intellectual property rights from the Company s wholly-owned subsidiary in the UK. At September 30, 2005, $1,947,000 was outstanding of which $690,000 was classified under Current portion of long-term debt and $1,257,000 was classified under Long-tern debt, less current portion in the accompanying condensed consolidated balance sheet.

Note 10. Convertible Preferred Stock

On June 16, 2004 (the Closing Date), the Company completed a private placement of $9.0 million of unregistered convertible preferred stock (the Preferred Series A Financing). In connection with this transaction, the Company issued an aggregate of 4,090,909 shares of convertible preferred stock (the Series A Preferred Stock) to certain accredited investors (the Series A Holders), priced at $2.20 per share, each of which is convertible into one share of the Company s common stock.

In addition, the Company issued to the Series A Holders (i) five-year warrants to purchase an aggregate of 409,090 shares of common stock at an exercise price of $2.64 per share (the Initial Warrants) and (ii) 210-day warrants (the Additional Warrants) (a) that are exercisable only in the event that the Six Month Price (as defined below) is less than $2.20 and (b) to purchase a variable number of shares of common stock at $.01 per share based upon the Six Month Price. The number of issuable shares was determined by the Six Month Price which is defined as the greater of $1.75 or the lowest average closing price of the Company s common stock for any 15 consecutive day period during the six-month period immediately following the Closing Date. The Initial Warrants vested and became fully exercisable on the issuance date. As of December 15, 2004, the Six Month Price was $1.98 per share, which resulted in the issuance of 456,853 Additional Warrants to the Series A Holders. As of December 31, 2004 certain Series A Holders exercised their Additional Warrants resulting in the issuance of 279,188 shares of common stock. During the quarter ended March 31, 2005, the remaining Additional Warrants were exercised resulting in the issuance of 177,665 shares of common stock.

Proceeds from the Preferred Series A Financing approximated $8.6 million, net of issuance costs of $0.4 million, and are being used for (i) working capital, (ii) the repayment of debt and (iii) to strengthen the Company s balance sheet. $2.2 million of the net proceeds were transferred on behalf of Artemis directly to Laurus to pay certain over-advances due at the Closing Date. (See Note 9 for more information on the Laurus Facility).

With respect to the Series A Preferred Stock, the Series A Holders maintain certain powers, preferences and rights that are senior to the holders of the Company s common stock. The Series A Holders (i) are entitled to one vote per share on all matters upon which holders of common stock are entitled to vote, (ii) have certain voting consents, (iii) so long as at least twenty-five percent of Series A Preferred Stock is outstanding, have the right to elect one member of the board of directors of the Company, and (iv) so long as at least thirty percent of the Series A Preferred Stock is outstanding, the Company cannot redeem or declare or pay any cash dividend or distribution on its common stock without the prior written consent of the holders of at least a majority of the Series A Preferred Stock.

The exercise prices and the number of shares underlying the warrants are subject to anti-dilution adjustments in connection with mergers, acquisitions, stock splits, dividends and the like. The Series A Holders may pay the exercise price for the shares to be purchased upon exercise of the warrants by paying cash equal to the number of shares to be purchased times the appropriate exercise price per share, or, if the market price of our common stock exceeds the exercise price to be paid per share, the Series A Holders may, at their option, exchange the right to purchase all or part of the maximum shares underlying the warrants for that number of shares equal in value to the amount by which the closing price of a share of our common stock preceding the exercise date exceeds the exercise price, multiplied by the number of shares to be purchased at that exercise price.

The Company filed a registration statement on Form S-1 with the SEC to register the common stock, which was or may be issued as described above. The SEC declared such registration statement effective on October 29, 2004. The Company filed a post-effective amendment to this registration statement on August 9, 2005.

Note 11. Other Related Party Transactions

At September 30, 2005 and 2004, the Company had no receivables due from Proha, which, factoring in the common stock conversion rights of the holders of the Series A preferred stock (see Note 10) owns approximately 54% of the Company s outstanding common stock. At September 30, 2005 and 2004, the Company had other payables to Proha of $0.2 million and $0.2 million, respectively. Such amount is recorded under the caption Short-term debt and line of credit, net in the accompanying condensed consolidated balance sheet at September 30, 2005.

On March 1, 2004, Artemis Finland entered into a loan agreement with a financial institution in the amount of approximately $3.1 million. The loan was originally due on March 1, 2006 and accrued interest at 0.5 percentage points above the 3-month Euribor rate per annum, payable on a quarterly basis. The loan was secured by cash collateral provided by Proha equal to the loan amount and a security interest in substantially all of Artemis Finland s assets. Artemis and Proha executed a letter of commitment, whereby Proha agreed to provide the Company sufficient advance notice of its intent to demand the return of its collateral from the financial institution. On October 11, 2004, the Company received a notification from Proha declaring its intent to demand the return of its $3.1 million collateral. Under this notification, the Company was required to repay the loan by January 10, 2005. On January 11, 2005, Artemis Finland and Proha informed the financial institution to use the cash collateral provided by Proha as the method by which Artemis Finland shall be deemed to have pre-paid the loan in full. Contemporaneously, Artemis Finland entered into a Payment Schedule Agreement (Payment Agreement) with Proha, whereby Proha effectively replaced the financial institution as the creditor and Artemis Finland agreed to pay Proha 2.5 million Euros in three installments (1.25 million Euros by January 17, 2005, 625,000 Euros by February 28, 2005 and 625,000 Euros by March 31, 2005). The first two installments were paid on the respective due dates and the final installment of approximately $0.8 million was made on April 1, 2005.

During the fourth quarter of 2003, the Company engaged Bengt Algevik to perform certain business consultancy functions for which he received consideration, including reimbursement of travel and other expenses, of approximately $200,000. Mr. Algevik completed his assignment in May 2004 and was appointed as a director of the Company effective June 16, 2004.

There are several other related party agreements in place between Artemis Finland and Proha or its subsidiaries and investees as further described below:

Artemis Finland shares office space with Proha, for which Proha charges Artemis Finland a share of its office-related costs (Office Allocation Charge), such as rent, utilities, telecommunication costs, office maintenance and certain other business costs. The Office Allocation Charge approximated $302,000 and $284,000 for the nine months ended September 30, 2005 and 2004, respectively.

Intellisoft Oy, an application service provider, which is owned by Proha (80.1%) and Artemis (19.9%), has been providing certain application hosting and other services to Artemis Finland and its customers in the amount of approximately $116,000 for the nine months ended September 30, 2004. No such service has been provided during the nine months ended September 30, 2005.

Datamar Oy, a subsidiary of Proha (90%), is providing certain project management and programming services to Artemis Finland (Management Programming Fee). The Management Programming Fee charged to Artemis Finland approximated $130,000 and $121,000 for the nine months ended September 30, 2005 and 2004, respectively.

Tesnet Group Oy (formerly Intellitest International Oy), a company partially owned by Proha (35%), provides certain software testing services to Artemis Finland (Testing Services). These Testing Services approximated $89,000 and $130,000 for the nine months ended September 30, 2005 and 2004, respectively.

Artemis Finland is a distributor of software products provided by Safran Software Solutions AS (Safran), a Norwegian company wholly owned by Proha. The royalty paid by Artemis Finland to Safran approximated $25,000 and $19,000 for the nine months ended September 30, 2005 and 2004, respectively.

Artemis Finland has provided certain software development services and software sales to ProCountor International Oy (ProCountor), a company partially owned by Proha (19%). Artemis Finland has charged ProCountor approximately $0 and $1,000 for such services for the nine months ended September 30, 2005 and 2004, respectively. ProCountor has also provided certain software development services to Artemis Finland Oy and charged a fee for use of a web-based travel and expense claims program of approximately $3,000 and $26,000 for the nine months ended September 30, 2005 and 2004, respectively.

Artemis Finland cooperated with Futura One Oy (Futura), a company majority owned by Proha (51%). Artemis Finland has charged Futura for accounting services of approximately $0 and $4,000 for the nine months ended September 30, 2005 and 2004, respectively.

At September 30, 2005 and 2004, the Company maintained equity holdings in certain joint ventures, which are accounted for under the equity method, with the exception of Metier Scandinavia AS (Norway), Metier Plancom BV(Netherlands) and DA Management Solutions(Finland) which are accounted for under the cost method. The Company records its equity interest in net losses first to the investment balance, then against loans or advances.

In September 2000, Artemis International France Sarl (Artemis France) entered into a joint venture agreement (the Agreement) with the Canadian company Changepoint Corporation (Changepoint) and established the joint venture, Changepoint France Sarl (Changepoint France). Artemis France and Changepoint owned 40% and 60% of Changepoint France, respectively. The Agreement provided for a put and call option for Artemis France to sell and Changepoint to purchase the 40% interest held by Artemis France under certain conditions. The Company has exercised its put option to sell its 40% interest in Changepoint France. In May 2004, Compuware Corporation acquired privately held Changepoint.

An issue arose regarding the Company exercising its put option, which the parties settled in March of 2005 (the Settlement). Pursuant to the Settlement, the Company received $829,000 (including VAT of $136,000) and $557,000 (including VAT of $92,000) in cash in March and April of 2005, respectively, representing the nominal value of the shares held by Artemis France in the joint venture, shareholder loans and other receivables owed to the Company. As a result of the Settlement, the Company recognized a pretax gain of $756,000 reported under the caption Other (income), net in the Company s condensed consolidated statement of operations for the nine months ended September 30, 2005.

Note 12. Benefit Plans

The Company has a defined contribution plan (the Plan) which qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan covers all U.S. employees who may contribute up to 15% of their annual compensation with an annual maximum of $14,000 for calendar 2005. Employer contributions vest to the participants incrementally over a period of five years. Company contributions to the Plan were $62,000 and $26,000 during the nine months ended September 30, 2005 and 2004, respectively.

The Company also has a defined benefit pension plan covering the employees of its United Kingdom subsidiary. Company contributions are determined based upon a percentage, as determined by an actuary, of an eligible employee s annual salary. Company contributions to the defined benefit pension plan during the year ended December 31, 2004 were $0.4 million. The projected contribution for the year ending December 31, 2005 is $0.3 million.

Net defined benefit pension cost included the following components:

	Year ending December 31, Projected 2005	2004
Service cost (benefits earned during the period)	$ 299	$ 261
Interest cost on projected benefit obligation	585	517
Expected return on plan assets	(523)	(474)
Amortization of unrecognized actuarial net loss	106	141
	$ 467	$ 445

Note 13. Restructuring Costs

In response to a decline in the Company s key operating metrics, such as total revenue, operating margin and revenue per employee the Company initiated a restructuring of its operations and associated workforce reduction in early 2004 (collectively, the 2004 Restructuring) intended to strengthen the Company s competitive position and future operating performance. The Company s total restructuring charge incurred during the nine months ended September 30, 2004 related to this Restructuring was approximately $2.0 million.

As part of the 2004 Restructuring, the Company reduced its workforce by a total of 58 employees, from 396 to 338 (which includes scheduled terminations and voluntary resignations) or approximately 15% of its workforce. The Restructuring Charge has affected corporate positions and certain operational positions in the Americas, EMEA and the Asia/Japan segments in the approximate amounts of $0.8 million, $0.9 million and $0.4 million, respectively. This follows a similar reduction (8% of the workforce) in the last quarter of 2003, whereby these reductions were based on discretionary restructuring actions. The restructuring charge recorded in the third quarter of 2004, resulted from the Company s decision to shut down one of its offices in Germany and to move its German headquarters to Munich. The resulting annual costs savings are expected to exceed $0.9 million.

The Company has not initiated any restructuring actions during the nine months ended September 30, 2005.

Note 14. Licensing Agreement

In December 2004, the Company entered into a definitive agreement (the AMS Agreement) with Advanced Management Solutions Inc. (AMS), a company providing Enterprise Project and Resource Management solutions, whereby (i) the Company obtained the worldwide exclusive right to use, market and grant sub-licenses with respect to certain software developed by AMS (the AMS Software), (ii) AMS will provide additional development services under direction of the Company, and (iii) the Company has obtained the right to purchase the AMS Software through November 30, 2006.

The initial term of the software license ends November 30, 2007, and is renewable for one additional three-year term. The Company has agreed on certain minimum royalty payments to secure worldwide exclusivity. Also as part of the transaction, the Company agreed to pay AMS $0.5 million to secure the option to purchase the AMS Software. This option fee was paid by the Company to AMS in April 2005 and is non-recoverable. The option fee was capitalized and recorded under the caption Investment in affiliates and other assets in the accompanying condensed consolidated balance sheet at September 30, 2005 and is being amortized over the option term through November 30, 2006. The purchase price for the AMS Software is $2.5 million and is payable in two annual installments, should the Company elect to exercise such option.

Further, the Company has agreed to fund the additional development work with $0.5 million to be paid in five installments. The Company made two payments of $0.1 million in December 2004 and October 2005. The additional development work is being capitalized in accordance with SFAS No. 86 Accounting for the Cost of Computer Software.

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

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the 34 Act). Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, words such as may , will , should , estimates , predicts , potential , continue , strategy , belie anticipates , plans , intends , and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements.

The following discussion should be read in conjunction with the accompanying unaudited condensed Consolidated Financial Statements and related Notes thereto and the Consolidated Financial Statements and the Notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2004.

Overview

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

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

- New Product Development and Launch
- Information Technology (IT) Management and Governance
- Strategic Asset Optimization
- Aerospace and Defense Program Management
- Public Investment Management

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

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

More than 400 companies representing over 630,000 users in 44 different countries have licensed Artemis solutions in a broad range of industries, including: Chicago Mercantile Exchange, Cummins, Denso Corporation, Exelon Energy, AMI Semiconductor, Nokia, France Telecom, Lockheed Martin, Telecom Italia, Toshiba, MoneyGram, Northrop Grumman, Siemens, and USAA.

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

Critical Accounting Policies

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

- Revenue recognition;
- Valuation of long-lived assets;
- Valuation of deferred tax assets; and
- Estimation of the allowance for doubtful accounts receivable.

Revenue recognition

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

Services revenue is recognized as the service is performed assuming that sufficient evidence exists to estimate the fair value of the services. Consulting and training services are billed based on contractual hourly rates and revenues are recognized as the services are performed. Consulting services primarily consist of implementation services related to the installation of the Company s products, which do not require significant customization to, or modification of the underlying software code.

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

Valuation of long-lived assets

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

Valuation of deferred tax assets

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

Allowance for doubtful accounts receivable

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

Results of Operations

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION.

Consolidated Financial Highlights

(Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	Percent of Total Revenues	2004	Percent of Total Revenues	2005	Percent of Total Revenues	2004	Percent of Total Revenues
				(in millions)				
Statement of Operations Data:								
Revenue:								
Software	$ 1.7	17%	$ 2.4	22%	$ 7.8	23%	$ 8.5	22%
Support	4.3	43%	4.3	39%	13.1	38%	12.8	34%
Services	4.1	40%	4.3	39%	13.5	39%	16.7	44%
	10.1	100%	11.0	100%	34.4	100%	38.1	100%
Cost of revenue:								
Software	0.1	1%	0.1	1%	0.3	1%	0.1	0%
Support	1.2	12%	1.4	13%	3.7	11%	4.3	11%
Services	3.4	34%	3.8	35%	11.2	33%	13.4	35%
	4.8	47%	5.2	48%	15.2	44%	17.9	47%
Gross margin	5.3	53%	5.8	52%	19.2	56%	20.2	53%
Operating expenses:								
Selling and marketing	3.4	33%	3.0	27%	11.2	34%	10.6	28%
Research and development	1.9	19%	1.7	15%	5.8	17%	5.8	15%
General and administrative	1.5	15%	1.8	16%	5.3	15%	6.5	17%
Amortization expense	0.2	2%	1.0	9%	1.5	4%	3.1	8%
Restructuring charge		0%	0.7	6%		0%	2.1	5%
	7.0	69%	8.1	74%	23.7	69%	28.0	74%
Operating loss	(1.6)	-16%	(2.4)	-22%	(4.5)	-13%	(7.8)	-20%
Loss before income taxes	(1.2)	-12%	(2.9)	-27%	(3.0)	-9%	(8.3)	-22%
Income tax expense	0.2	2%	(0.1)	-2%	0.5	2%	0.3	1%
Net loss	$ (1.4)	-14%	$ (2.9)	-26%	$ (3.5)	-10%	$ (8.7)	-23%

Three and nine months ended September 30, 2005 and 2004

Revenue

Software Revenue

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Change $	Change %	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Change $	Change %
Americas	$ 349	$ 682	$ (333)	-49%	$ 1,251	$ 1,816	$ (565)	-31%
EMEA	1,029	1,375	(346)	-25%	4,853	5,422	(569)	-10%
Japan	297	168	129	77%	1,244	800	444	56%
Asia	23	163	(140)	-86%	471	475	(4)	-1%
	$ 1,698	$ 2,388	$ (690)	-29%	$ 7,819	$ 8,513	$ (694)	-8%

Software revenue represents fees earned for granting customers licenses to use our software products. Software revenue overall decreased compared to the third quarter and nine months ended September 30, 2005. While the Company s strategic product platform, Artemis 7, grew by 10% and 65%, respectively, for the quarter and nine months ended September 30, 2005, decreases in sales of the Company s other products more than offset such growth. From a geographical perspective, decreases in software revenue in Finland, the US, Germany, Asia and France were only partially offset by increases in the UK, Italy and Japan.

Support Revenue

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Change $	Change %	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Change $	Change %
Americas	$ 1,261	$ 1,231	$ 30	2%	$ 3,752	$ 3,703	$ 49	1%
EMEA	2,507	2,578	(71)	-3%	7,711	7,568	143	2%
Japan	441	416	25	6%	1,395	1,325	70	5%
Asia	88	74	14	19%	246	220	26	12%
	$ 4,297	$ 4,299	$ (2)	0%	$ 13,104	$ 12,816	$ 288	2%

Support revenue consists of fees for providing software updates and technical support for our software products. Support revenue for the third quarter of 2005 remained at comparable levels to the third quarter of 2004 and increased by 2% or $0.3 million for the nine months ended September 30, 2005. Increases in support revenue resulting from new software sales were offset by expected attrition within the existing customer base.

Services Revenue

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Change $	Change %	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Change $	Change %
Americas	$ 481	$ 651	$ (170)	-26%	$ 1,498	$ 2,841	$ (1,343)	-47%
EMEA	2,694	2,929	(235)	-8%	9,924	11,843	(1,919)	-16%
Japan	839	589	250	42%	1,831	1,595	236	15%
Asia	66	153	(87)	-57%	240	448	(208)	-46%
	$ 4,080	$ 4,322	$ (242)	-6%	$ 13,493	$ 16,727	$ (3,234)	-19%

Services revenue consists of fees for consulting and training services generated by our personnel and through subcontracted third-party arrangements. For the quarter ended September 30, 2005, services revenue declined by $0.2 million or 6% compared to the same quarter in 2004 with declines in the US and EMEA being partially offset by an increase in services revenue in Japan. The overall decrease in services revenue for the third quarter of 2005 is primarily a result of the lower level of software revenue and shorter implementation cycles for the Artemis 7 based solutions that represents over 50% of total software revenue for the third quarter of 2005. The level of services revenue during the nine months ended September 30, 2005 compared to the same period in 2004 was also impacted by a reduction in non-implementation services, particularly in the US.

Cost of Revenue

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Change $	Change %	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Change $	Change %
Americas	$ 667	$ 957	$ (290)	-30%	$ 2,287	$ 3,546	$ (1,259)	-36%
EMEA	3,355	3,778	(423)	-11%	11,168	12,446	(1,278)	-10%
Japan	566	504	62	12%	1,384	1,512	(128)	-8%
Asia	113	109	4	4%	323	346	(23)	-7%
	$ 4,701	$ 5,348	$ (647)	-12%	$ 15,162	$ 17,850	$ (2,688)	-15%

Cost of revenue consists primarily of salaries and third-party expenses principally related to consulting, software maintenance services and training services. The decrease in cost of revenue in the Americas and EMEA was primarily due to a reduction in headcount taken in 2004 and 2005 as a result of the expected lower level of services revenue. Since the majority of our costs of revenue are directly related to our support and service revenues, this had a significant impact on overall costs of revenues.

Gross Profit

Total gross profit for the third quarter of 2005 decreased by $0.3 million compared to the third quarter of 2004, resulting from the decrease in software revenue, which was partially offset by margin increases in support and services revenue. Total gross profit for the nine months ended September 30, 2005 was $19.3 million, a decrease of $.9 million or 4%, from $20.2 million for the same period in 2004. The year-to-date performance was additionally impacted by a decline services revenue, particularly during the first quarter of 2005, where services revenue in the US decreased by 58% due in part to a reduction in services provided to two of the Company s largest customers.

Gross profit margin for the three and nine months ended September 30, 2005 increased to 53% and 56%, respectively, compared to 51% and 53%, respectively, during the same periods in 2004, reflecting the aforementioned cost of revenue efficiencies.

Operating Expenses

Selling and Marketing expenses

Selling and marketing expenses consist primarily of personnel related costs for our direct sales force and marketing staff and cost for marketing programs, including advertising, trade shows, promotional materials and customer conferences. Selling and marketing expenses increased to $3.4 million during the three months ended September 30, 2005, from $3.0 million during the same period of 2004. For the nine months ended September 30, 2005, selling and marketing expenses increased to $11.2 million compared to $10.6 million for the same period in 2004. Sales and marketing efforts have been focused on further promoting our industry specific solutions.

Research and development

Research and development expenses consist primarily of salaries and related costs associated with the development of our products. Research and development expenses increased by $0.2 million or 11% to $1.9 million for the third quarter of 2005 compared to $1.7 million for the same quarter in 2004 and remained flat for the nine months ended September 30, 2005 compared to the same period in 2004. Decreases in research and development expense resulting from the reduction in headcount in our Newport Beach development center in late 2004 were more than offset by the addition of resources to our outsourced development team and related transition costs.

General and administrative

General and administrative expenses consist primarily of personnel salaries and wages and related costs for general corporate functions, including executive, legal, finance, accounting, human resources and information systems. General and administrative expenses decreased by $0.3 million or 15% to $1.5 million for the third quarter of 2005, from $1.8 million in the same quarter of 2004. For the nine months ended September 30, 2005, general and administrative expenses decreased by $1.2 million or 19%, to $5.3 million, compared to $6.5 million for the same period in 2004. The decrease is primarily a result of the restructuring actions taken during 2004 as well as additional efforts to reduce discretionary spending.

Amortization expense

Amortization expense represents the financial statement effect of amortizing certain intangible assets. The Company recorded amortization expense of $0.2 million and $1.0 million for the quarters ended September 30, 2005 and 2004, respectively, and $1.5 million and $3.1 million for the nine months ended September 30, 2005 and 2004. The decrease in amortization expense during the third quarter of 2005 compared to the same quarter in 2004 is a result of the intangible asset related to certain technology being fully impaired during the quarter ended December 31, 2004 and the intangible asset related to a certain customer base being fully amortized in July 2005.

Restructuring expense

The Company s restructuring charges for the nine months ended September 30, 2004, are comprised primarily of: (i) severance pay (including related payroll taxes) and associated one-time employee termination costs related to the reduction of the Company s workforce; (ii) relocation costs resulting from organizational realignments; and (iii) professional fees incurred to improve the competitive position of the Company. The Company accounts for the costs associated with exiting an activity, including costs associated with the reduction of the Company s workforce, in accordance with SFAS No. 146. The termination costs recorded by the Company are not associated with nor do they benefit continuing activities.

Inherent in the estimation of the costs related to the Company s restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. Changing business conditions may affect the assumptions related to the timing and extent of the Company s restructuring activities. The Company reviews the status of restructuring activities on a quarterly basis and, if appropriate, records changes to its restructuring obligations in operations based on management s most current estimates.

The Company has not initiated any restructuring actions during the nine months ended September 30, 2005.

Non-operating (income) expenses, net

Non-operating income and expenses consist of (i) net interest income or expense, (ii) equity in the net income or losses of unconsolidated affiliates, (iii) foreign exchange gains or losses, (iv) income tax expense (benefit), and (v) other (income) expense. During the three months ended September 30, 2005, the Company incurred interest expense in the amount of $0.2 million, approximately the same quarter in 2004, resulting from a loan initiation fee and the interest rate related to an advance under the existing $5.0 million revolving credit facility with Laurus. Foreign exchange gains and losses result from changes in the exchange rates of the currencies used in the countries in which Artemis operates. During the quarter ended March 31, 2005, the Company recognized a pretax gain of $0.8 million as a result of the disposition of an affiliated entity.

Changes in foreign currency exchange rates

The effect of changes in foreign currency exchange rates for the quarter ended September 30, 2005 compared to the prior-year quarter resulted in an decrease in revenues of approximately $0.2 million and a decrease in operating loss of less than $0.1 million. The effect of changes in foreign currency exchange rates for the nine months ended September 30, 2005 compared to the same period in 2004 resulted in an increase in revenues of approximately $0.4 million and a decrease in operating loss of less than $0.1 million.

Liquidity and Capital Resources

At September 30, 2005, we had cash of $3.7 million, the same level as at December 31, 2004.

Our operating activities provided approximately $0.1 million in cash during the nine months ended September 30, 2005. Operating cash flow was positively impacted by (i) a decrease in trade accounts receivable of $3.4 million, (ii) an increase in deferred revenues of $0.2 million, (iii) non-cash expenses of $1.8 million in depreciation and amortization related to our fixed assets and identifiable intangible assets, and (iv) a decrease in prepaid expenses and other assets of $1.1 million. The effects of these items on cash were more than offset by factors such as (v) a decrease in accounts payable and other liabilities of $3.4 million, (vi) the gain on the disposition of an affiliated entity of $0.8 million, and (vii) the net loss of $3.5

million reported for the nine months ended September 30, 2005. Our investing activities provided $0.7 million during the nine months ended September 30, 2005, related to the settlement with Compuware Corporation pertaining to an investment held by the Company. We increased our borrowings by $1.4 million in financing activities during the nine months ended September 30, 2005.

The Company s principal sources of liquidity are cash and cash equivalents, our expected cash flows from operations and our lines of credit. Cash requirements through the end of fiscal year 2005 are primarily to fund operations at approximately the same levels as fiscal year 2004 not including savings from the restructuring actions taken during 2004. Our near and long-term operating strategies focus on promoting our new and existing solution offerings to increase revenue and cash flow while better positioning the Company to compete under current market conditions. We are also reviewing our global infrastructure for additional efficiencies in order to improve our financial results and strengthen the balance sheet. As such, we are considering further organizational changes to reduce costs. In the future, we may need to raise additional funds through public and/or private financings, or other arrangements to fund operations, strengthen our global presence or for potential acquisitions, if any. Such additional equity financing may be dilutive to our existing stockholders.

Our capital requirements depend on numerous factors, including the rate of market acceptance of our products and services, our ability to service customers, our ability to maintain and expand our customer base, the level of resources required to maintain or expand our marketing and sales organization, research and development activities and other factors. The Company cannot be assured that any financings or other arrangements will be available in amounts or on terms acceptable to the Company or at all, and any new financings or other arrangements could place operating or other restrictions on the Company. Our inability to raise additional capital, if and when needed, could seriously harm the growth of our business and results of operations.

Related Party Transactions

At September 30, 2005 and 2004, the Company had no receivables due from Proha, which, factoring in the common stock conversion rights of the holders of the Series A preferred stock (see Note 10) owns approximately 54% of the Company s outstanding common stock. At September 30, 2005 and 2004, the Company had other payables to Proha of $0.3 million and $0.2 million, respectively. Such amount is recorded under the caption Short-term debt and line of credit, net in the accompanying condensed consolidated balance sheet at September 30, 2005.

On March 1, 2004, Artemis Finland entered into a loan agreement with a financial institution in the amount of approximately $3.1 million (or 2.5 million Euro). The loan was originally due on March 1, 2006 and accrued interest at 0.5 percentage points above the 3-month Euribor rate per annum, payable on a quarterly basis. The loan was secured by cash collateral provided by Proha equal to the loan amount and a security interest in substantially all of Artemis Finland s assets. Artemis and Proha executed a letter of commitment, whereby Proha agreed to provide the Company sufficient advance notice of its intent to demand the return of its collateral from the financial institution. On October 11, 2004, the Company received a notification from Proha declaring its intent to demand the return of its $3.1 million collateral. Under this notification, the Company was required to repay the loan by January 10, 2005. On January 11, 2005, Artemis Finland and Proha informed the financial institution to use the cash collateral provided by Proha as the method by which Artemis Finland shall be deemed to have pre-paid the loan in full. Contemporaneously, Artemis Finland entered into a Payment Schedule Agreement (Payment Agreement) with Proha, whereby Proha effectively replaced the financial institution as the creditor and Artemis Finland agreed to pay Proha 2.5 million Euros in three installments (1.25 million Euros by January 17, 2005, 625,000 Euros by February 28, 2005 and 625,000 Euros by March 31, 2005). The first two installments were paid on the respective due dates and the final installment of approximately $0.8 million was made on April 1, 2005.

During the fourth quarter of 2003, the Company engaged Bengt Algevik to perform certain business consultancy functions for which he received consideration, including reimbursement of travel and other expenses, of approximately $200,000. Mr. Algevik completed his assignment in May 2004 and was appointed as a director of the Company effective June 16, 2004.

There are several other related party agreements in place between Artemis Finland and Proha or its subsidiaries and investees as further described below:

Artemis Finland shares office space with Proha, for which Proha charges Artemis Finland a share of its office-related costs (Office Allocation Charge), such as rent, utilities, telecommunication costs, office maintenance and certain other business costs. The Office Allocation Charge approximated $302,000 and $284,000 for the nine months ended September 30, 2005 and 2004, respectively.

Intellisoft Oy, an application service provider, which is owned by Proha (80.1%) and Artemis (19.9%), has been providing certain application hosting and other services to Artemis Finland and its customers in the amount of approximately $116,000 for the nine months ended September 30, 2004. No such service has been provided during the nine months ended September 30, 2005.

Datamar Oy, a subsidiary of Proha (90%), is providing certain project management and programming services to Artemis Finland (Management Programming Fee). The Management Programming Fee charged to Artemis Finland approximated $130,000 and $121,000 for the nine months ended September 30, 2005 and 2004, respectively.

Tesnet Group Oy (formerly Intellitest International Oy), a company partially owned by Proha (35%), provides certain software testing services to Artemis Finland (Testing Services). These Testing Services approximated $89,000 and $130,000 for the nine months ended September 30, 2005 and 2004, respectively.

Artemis Finland is a distributor of software products provided by Safran Software Solutions AS (Safran), a Norwegian company wholly owned by Proha. The royalty paid by Artemis Finland to Safran approximated $25,000 and $19,000 for the nine months ended September 30, 2005 and 2004, respectively.

Artemis Finland has provided certain software development services and software sales to ProCountor International Oy (ProCountor), a company partially owned by Proha (19%). Artemis Finland has charged ProCountor approximately $0 and $1,000 for such services for the nine months ended September 30, 2005 and 2004, respectively. ProCountor has also provided certain software development services to Artemis Finland Oy and charged a fee for use of a web-based travel and expense claims program of approximately $3,000 and $26,000 for the nine months ended September 30, 2005 and 2004, respectively.

Artemis Finland cooperated with Futura One Oy (Futura), a company majority owned by Proha (51%). Artemis Finland has charged Futura for accounting services of approximately $0 and $4,000 for the nine months ended September 30, 2005 and 2004, respectively.

At September 30, 2005 and 2004, the Company maintained equity holdings in certain joint ventures, which are accounted for under the equity method, with the exception of Metier Scandinavia AS (Norway), Metier Plancom BV(Netherlands) and DA Management Solutions(Finland) which are accounted for under the cost method. The Company records its equity interest in net losses first to the investment balance, then against loans or advances.

In September 2000, Artemis International France Sarl (Artemis France) entered into a joint venture agreement (the Agreement) with the Canadian company Changepoint Corporation (Changepoint) and established the joint venture, Changepoint France Sarl (Changepoint France). Artemis France and Changepoint owned 40% and 60% of Changepoint France, respectively. The Agreement provided for a put and call option for Artemis France to sell and Changepoint to purchase the 40% interest held by Artemis France under certain conditions. The Company has exercised its put option to sell its 40% interest in Changepoint France. In May 2004, Compuware Corporation acquired privately held Changepoint.

An issue arose regarding the Company exercising its put option, which the parties settled in March of 2005 (the Settlement). Pursuant to the Settlement, the Company received $829,000 (including VAT of $136,000) and $557,000 (including VAT of $92,000) in cash in March and April of 2005, respectively, representing the nominal value of the shares held by Artemis France in the joint venture, shareholder loans and other receivables owed to the Company. As a result of the Settlement, the Company recognized a pretax gain of $756,000 reported under the caption Other (income), net in the Company s condensed consolidated statement of operations for the nine months ended September 30, 2005.

Item 3. Qualitative and Quantitative Disclosure About Market Risk

At September 30, 2005, the majority of our cash balances were held primarily in the form of short- term highly liquid investment grade money market funds of major financial institutions. Due to the short-term nature of our investments and the fact that they are marked to market daily, we believe that we are not subject to any material interest or market rate risks.

We conduct a significant portion of our business in currencies other than the United States dollar. Our operating results are therefore subject to fluctuations in foreign currency exchange rates. Changes in the value of major foreign currencies relative to the value of the United States dollar could potentially adversely affect revenues and operating results. We do not hedge foreign currency risk. As a result, we will continue to experience foreign currency gains and losses.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d 15(e) of the 34 Act) as of a date within 90 days prior to the filing date of this report (the Evaluation Date). The CEO and CFO concluded based upon that evaluation that, as of September 30, 2005, they were effectively and timely informed by our disclosure controls and procedures of the material information relating to us (or our consolidated subsidiaries) as would be required to be included in our periodic filings with the SEC. Further, our CEO and the CFO concluded based on their most recent evaluation as of the Evaluation Date that there are no significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company s ability to record, process, summarize and report financial data, and our officers have identified no material weaknesses in internal controls.

There were no changes made in our internal control over financial reporting during the quarter ended September 30, 2005 that materially affected, or were reasonably likely to materially affect our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to a number of legal claims arising in the ordinary course of its business. The Company believes the ultimate resolution of these claims will not have a material effect on its financial position, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13A-14 and 15D-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13A-14 and 15D-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

	Artemis International Solutions Corporation
Date: November 14, 2005	/s/ Patrick Ternier Patrick Ternier, Chief Executive Officer
Date: November 14, 2005	/s/ Robert S. Stefanovich Robert S. Stefanovich, Chief Financial Officer