PARAMETRIC TECHNOLOGY CORP
Form 10-Q/A
December 11, 2007

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

AMENDMENT NO. 1
TO
FORM 10-Q

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

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

Massachusetts	**04-2866152**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

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

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

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

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer o

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

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

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EXPLANATORY NOTE

Items Amended by this Form 10-Q/A

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

Part I, Item 1 Unaudited Financial Statements;

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

Part I, Item 4 Controls and Procedures.

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

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

Restatement of Prior Period Financial Statements

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

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

Background of the Restatement

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

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

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

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

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

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

Summary of the Restatement Effects

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

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

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

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

PARAMETRIC TECHNOLOGY CORPORATION
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For the Quarter Ended December 30, 2006

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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PARAMETRIC TECHNOLOGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

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

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

2. Restatement of Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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Consolidated Balance Sheet	September 30, 2006 As Reported	Revenue Adjustment	Other Adjustments(1)	Restated
	(in thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	$ 183,448	$	$	$ 183,448
Accounts receivable	181,008			181,008
Prepaid expenses	20,495			20,495
Other current assets	51,824			51,824
Deferred tax assets	1,341			1,341