

PARAMETRIC TECHNOLOGY CORP

Form 10-Q/A

December 11, 2007

**Table of Contents**

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

**AMENDMENT NO. 1  
TO  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2007  
Commission File Number: 0-18059**

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

**Massachusetts  
(State or other jurisdiction of  
incorporation or organization)**

**04-2866152  
(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  NO

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  Accelerated Filer  Non-accelerated Filer

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

There were 114,848,255 shares of our common stock outstanding on August 3, 2007.

---

**Table of Contents**

**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 June 30, 2007 as originally filed with the Securities and Exchange Commission ( SEC ) on August 9, 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 June 30, 2007 and September 30, 2006 and for the three and nine months ended June 30, 2007 and July 1, 2006 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 August 9, 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 December 30, 2006 and March 31, 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 December 30, 2006 and March 31, 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 ).

**Table of Contents**

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 \$38.0 million and \$39.5 million at June 30, 2007 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. Our restatement also includes an adjustment to correct our third quarter 2007 financial statements for a \$10.4 million overstatement of reported net income, which resulted from tax errors detected in the fourth quarter of 2007 relating primarily to our release in the third quarter of a substantial portion of the valuation allowance for our U.S. net deferred tax assets.

**Table of Contents****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:

	Nine months ended June 30,		Year ended September 30,			Prior Years	Total
	2007	2006	2005	2004	2003		
	(in thousands, except per share data)						
Revenue, as previously reported	\$ 674,859	\$ 854,918	\$ 720,719	\$ 660,029	\$ 671,940		
Adjustments	(232)	(6,935)	(12,744)	(8,361)	(2,487)	\$ (10,506)	\$ (41,265)
Revenue, as restated	\$ 674,627	\$ 847,983	\$ 707,975	\$ 651,668	\$ 669,453		
Net income (loss), as previously reported	\$ 119,780	\$ 60,866	\$ 83,592	\$ 34,813	\$ (98,280)		
Adjustments	(6,763)	(4,062)	(10,405)	(3,228)	(2,907)	\$ (12,927)	\$ (40,292)
Net income (loss), as restated	\$ 113,017	\$ 56,804	\$ 73,187	\$ 31,585	\$ (101,187)		
Earnings (loss) per share Diluted, as previously reported	\$ 1.02	\$ 0.54	\$ 0.75	\$ 0.32	\$ (0.93)		
Adjustments	(0.06)	(0.04)	(0.10)	(0.03)	(0.03)		
Earnings (loss) per share Diluted, as restated	\$ 0.96	\$ 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**  
**INDEX TO FORM 10-Q/A**  
**For the Quarter Ended June 30, 2007**

	<b>Page Number</b>
<b><u>Part I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Unaudited Financial Statements:</u></b>	
<u>Consolidated Balance Sheets as of June 30, 2007 and September 30, 2006</u>	1
<u>Consolidated Statements of Operations for the three and nine months ended June 30, 2007 and July 1, 2006</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2007 and July 1, 2006</u>	3
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2007 and July 1, 2006</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 4. Controls and Procedures</u>	39
<b><u>Part II OTHER INFORMATION</u></b>	
<u>Item 6. Exhibits</u>	41
<u>Signature</u>	42

**Table of Contents**

**PART I FINANCIAL INFORMATION**  
**ITEM 1. UNAUDITED FINANCIAL STATEMENTS**  
**PARAMETRIC TECHNOLOGY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share data)  
**(unaudited)**

	<b>June 30, 2007 Restated Note 2</b>	<b>September 30, 2006 Restated Note 2</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 259,956	\$ 183,448
Accounts receivable, net of allowance for doubtful accounts of \$4,007 and \$4,900 at June 30, 2007 and September 30, 2006, respectively	171,764	181,008
Prepaid expenses	26,995	20,495
Other current assets (Note 1)	52,960	51,824
Deferred tax assets (Note 10)	23,283	1,341
<b>Total current assets</b>	<b>534,958</b>	<b>438,116</b>
Property and equipment, net	55,358	51,603
Goodwill (Note 7)	245,733	249,252
Acquired intangible assets, net (Note 7)	81,632	77,870
Deferred tax assets (Note 10)	63,523	9,148
Other assets	69,986	75,398
<b>Total assets</b>	<b>\$ 1,051,190</b>	<b>\$ 901,387</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 19,004	\$ 17,109
Accrued expenses and other current liabilities	52,848	52,128
Accrued compensation and benefits	54,599	72,632
Accrued income taxes	8,511	5,761
Customer advances (Note 2)	38,020	39,475
Deferred revenue (Note 1)	223,151	197,769
<b>Total current liabilities</b>	<b>396,133</b>	<b>384,874</b>
Other liabilities (Note 3)	96,065	97,413
Deferred revenue (Note 1)	8,225	13,228
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred stock, \$0.01 par value; 5,000 shares authorized; none issued	1,150	1,119

Edgar Filing: PARAMETRIC TECHNOLOGY CORP - Form 10-Q/A

Common stock, \$0.01 par value; 500,000 shares authorized; 114,990 and 111,880 shares issued and outstanding at June 30, 2007 and September 30, 2006, respectively

Additional paid-in capital	1,751,907	1,723,570
Accumulated deficit	(1,163,204)	(1,276,221)
Accumulated other comprehensive loss	(39,086)	(42,596)
Total stockholders' equity	550,767	405,872
Total liabilities and stockholders' equity	\$ 1,051,190	\$ 901,387

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

1

---

Table of Contents

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>	<b>June 30, 2007</b>	<b>July 1, 2006</b>
	<b>Restated Note 2</b>	<b>Restated Note 2</b>	<b>Restated Note 2</b>	<b>Restated Note 2</b>
Revenue:				
License	\$ 62,098	\$ 65,711	\$ 200,022	\$ 178,863
Service	162,766	149,854	474,605	424,823
<b>Total revenue</b>	<b>224,864</b>	<b>215,565</b>	<b>674,627</b>	<b>603,686</b>
Costs and expenses:				
Cost of license revenue	4,084	2,995	11,855	8,187
Cost of service revenue	67,673	65,579	204,855	188,221
Sales and marketing	74,573	70,033	215,694	198,217
Research and development	39,798	36,905	117,935	107,477
General and administrative	16,855	18,038	56,489	55,706
Amortization of acquired intangible assets	1,764	1,646	5,440	4,292
Restructuring charges (Note 3)		5,947		5,947
In-process research and development (Note 6)	544	2,100	544	2,100
<b>Total costs and expenses</b>	<b>205,291</b>	<b>203,243</b>	<b>612,812</b>	<b>570,147</b>
Operating income	19,573	12,322	61,815	33,539
Other income (expense), net	2,268	840	4,396	2,743
Income before income taxes	21,841	13,162	66,211	36,282
(Benefit from) provision for income taxes	(58,624)	(2,752)	(46,806)	6,457
<b>Net income</b>	<b>\$ 80,465</b>	<b>\$ 15,914</b>	<b>\$ 113,017</b>	<b>\$ 29,825</b>
Earnings per share Basic (Note 5)	\$ 0.71	\$ 0.14	\$ 1.00	\$ 0.27
Earnings per share Diluted (Note 5)	\$ 0.68	\$ 0.14	\$ 0.96	\$ 0.26
Weighted average shares outstanding Basic	113,154	109,947	112,610	109,672
Weighted average shares outstanding Diluted	117,500	112,871	117,423	112,930

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

**Table of Contents**

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

	<b>Nine months ended</b>	
	<b>June 30,</b>	<b>July 1,</b>
	<b>2007</b>	<b>2006</b>
	<b>Restated</b>	<b>Restated</b>
	<b>Note 2</b>	<b>Note 2</b>
Cash flows from operating activities:		
Net income	\$ 113,017	\$ 29,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,882	24,809
Stock-based compensation	22,507	29,273
In-process research and development	544	2,100
Provision for (benefit from) deferred income taxes	(58,985)	
Other non-cash costs (credits), net	834	988
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	33,483	637
Accounts payable and accrued expenses	(5,201)	(9,929)
Customer advances	232	6,480
Accrued compensation and benefits	(20,798)	(14,353)
Deferred revenue	21,454	20,929
Accrued income taxes	(3,323)	(24,572)
Other current assets and prepaid expenses	(3,150)	4,411
Other noncurrent assets and liabilities	(14,424)	(17,135)
Net cash provided by operating activities	115,072	53,463
Cash flows from investing activities:		
Additions to property and equipment	(17,139)	(13,065)
Acquisitions of businesses, net of cash acquired	(24,546)	(75,084)
Acquisition of remaining equity interest in a controlled subsidiary	(3,972)	
Net cash used by investing activities	(45,657)	(88,149)
Cash flows from financing activities:		
Proceeds from issuance of common stock	13,875	4,052
Payments of withholding taxes in connection with settlement of restricted stock units	(6,496)	(102)
Repurchase of common stock	(1,809)	
Tax benefit from stock-based awards	292	
Credit facility origination costs		(897)
Payments of capital lease obligations	(369)	(323)
Net cash provided by financing activities	5,493	2,730
Effect of exchange rate changes on cash and cash equivalents	1,600	1,426

Edgar Filing: PARAMETRIC TECHNOLOGY CORP - Form 10-Q/A

Net increase (decrease) in cash and cash equivalents	76,508	(30,530)
Cash and cash equivalents, beginning of period	183,448	204,423
Cash and cash equivalents, end of period	\$ 259,956	\$ 173,893
Supplemental disclosures of cash flow information:		
Property and equipment acquired under capital leases	\$	\$ 260

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

3

---

Table of Contents

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

	Three months ended		Nine months ended	
	June 30, 2007 Restated Note 2	July 1, 2006 Restated Note 2	June 30, 2007 Restated Note 2	July 1, 2006 Restated Note 2
Net income	\$ 80,465	\$ 15,914	\$ 113,017	\$ 29,825
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment, net of tax of \$0	786	986	3,340	1,837
Change in unrealized gain on investment securities, net of tax of \$0		28	(680)	(205)
Impact of release of valuation allowance on U.S. net deferred tax assets	850		850	
Other comprehensive income (loss)	1,636	1,014	3,510	1,632
Comprehensive income	\$ 82,101	\$ 16,928	\$ 116,527	\$ 31,457

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

**Table of Contents****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 \$5.7 million from accounts payable to accrued expenses and other current liabilities has been made in the September 30, 2006 consolidated balance sheet 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.

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 the related customer receivable, if not yet paid, is included in other current assets. Billed but uncollected maintenance-related amounts included in other current assets at June 30, 2007 and September 30, 2006 were \$45.9 million and \$50.0 million, respectively.

The results of operations for the three and nine months ended June 30, 2007 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 June 30, 2007 and September 30, 2006, our consolidated statements of operations and comprehensive income for the three and nine months ended June 30, 2007 and July 1, 2006, and our condensed consolidated statements of cash flows for the nine months ended June 30, 2007 and July 1, 2006, 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 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

**Table of Contents**

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 \$38.0 million and \$39.5 million at June 30, 2007 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. Our restatement also includes an adjustment to correct our third quarter 2007 financial statements for a \$10.4 million overstatement of reported net income, which resulted from tax errors detected in the fourth quarter of 2007 relating primarily to our release in the third quarter of a substantial portion of the valuation allowance for our U.S. net deferred tax assets.

**Table of Contents**

The following tables present the effect of the restatement adjustments by financial statement line item for our consolidated balance sheets as of June 30, 2007 and September 30, 2006, our consolidated statements of operations for the three and nine months ended June 30, 2007 and July 1, 2006, our consolidated statements of cash flows for the nine months ended June 30, 2007 and July 1, 2006, and our consolidated statements of comprehensive income for the three and nine months ended June 30, 2007 and July 1, 2006:

<b>Consolidated Balance Sheet</b>	<b>As Reported</b>	<b>June 30, 2007</b>		<b>Restated</b>
		<b>Revenue Adjustment</b>	<b>Other Adjustments(1)</b>	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 259,956	\$	\$	\$ 259,956
Accounts receivable	171,764			171,764
Prepaid expenses	26,995			26,995
Other current assets	52,960			52,960
Deferred tax assets	23,283			23,283
Total current assets	534,958			534,958
Property and equipment, net	55,358			55,358
Goodwill	245,733			245,733
Acquired intangible assets, net	81,632			81,632
Deferred tax assets	63,694	9,596	(9,767)	63,523
Other assets	69,986			69,986