

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

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended December 31, 2011**

**Commission File Number: 0-18059**

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**Parametric Technology Corporation**

(Exact name of registrant as specified in its charter)

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**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)

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 119,103,630 shares of our common stock outstanding on February 3, 2012.

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**PARAMETRIC TECHNOLOGY CORPORATION**  
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**For the Quarter Ended December 31, 2011**

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## PART I—FINANCIAL INFORMATION

## ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

PARAMETRIC TECHNOLOGY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)  
(unaudited)

	December 31, 2011	September 30, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 187,351	\$ 167,878
Accounts receivable, net of allowance for doubtful accounts of \$3,290 and \$3,902 at December 31, 2011 and September 30, 2011, respectively	221,436	230,220
Prepaid expenses	31,405	30,582
Other current assets	94,046	109,433
Deferred tax assets	54,050	54,151
Total current assets	588,288	592,264
Property and equipment, net	62,156	62,569
Goodwill	610,139	613,394
Acquired intangible assets, net	211,931	222,017
Deferred tax assets	104,183	98,064
Other assets	36,688	41,374
Total assets	\$ 1,613,385	\$ 1,629,682
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,638	\$ 16,974
Accrued expenses and other current liabilities	55,965	60,167
Accrued compensation and benefits	71,123	95,980
Accrued income taxes	16,548	11,895
Deferred tax liabilities	3,974	4,440
Deferred revenue	268,145	279,935
Total current liabilities	428,393	469,391
Revolving credit facility	200,000	200,000
Deferred tax liabilities	24,767	25,919
Deferred revenue	15,152	14,389
Other liabilities	97,344	97,293
Total liabilities	765,656	806,992
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 500,000 shares authorized; 118,620 and 116,937 shares issued and outstanding at December 31, 2011 and September 30, 2011, respectively	1,186	1,169
Additional paid-in capital	1,812,845	1,805,021
Accumulated deficit	(896,613)	(918,736)
Accumulated other comprehensive loss	(69,689)	(64,764)
Total stockholders' equity	847,729	822,690
Total liabilities and stockholders' equity	\$ 1,613,385	\$ 1,629,682

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

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

	Three months ended	
	December 31, 2011	January 1, 2011
Revenue:		
License	\$ 89,088	\$ 75,473
Service	229,188	191,079
Total revenue	318,276	266,552
Costs and expenses:		
Cost of license revenue	7,659	5,954
Cost of service revenue	90,560	80,107
Sales and marketing	97,778	84,521
Research and development	54,993	51,522
General and administrative	29,572	23,484
Amortization of acquired intangible assets	5,209	3,854
Total costs and expenses	285,771	249,442
Operating income	32,505	17,110
Interest and other (expense) income, net	(2,643)	(1,886)
Income before income taxes	29,862	15,224
Provision for income taxes	7,739	1,964
Net income	\$ 22,123	\$ 13,260
Earnings per share—Basic	\$ 0.19	\$ 0.11
Earnings per share—Diluted	\$ 0.18	\$ 0.11
Weighted average shares outstanding—Basic	117,715	116,827
Weighted average shares outstanding—Diluted	120,576	121,150

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

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

	Three months ended	
	December 31, 2011	January 1, 2011
Cash flows from operating activities:		
Net income	\$ 22,123	\$ 13,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,026	14,069
Stock-based compensation	13,382	11,027
Excess tax benefits from stock-based awards	(150)	(262)
Other non-cash costs, net	101	27
Changes in operating assets and liabilities:		
Accounts receivable	13,295	(958)
Accounts payable and accrued expenses	(9,179)	4,585
Accrued compensation and benefits	(23,677)	(33,818)
Deferred revenue	(2,075)	(7,425)
Accrued litigation	—	(52,129)
Accrued income taxes	(2,409)	(2,069)
Other current assets and prepaid expenses	7,884	6,127
Other noncurrent assets and liabilities	164	(472)
<b>Net cash provided (used) by operating activities</b>	<b>36,485</b>	<b>(48,038)</b>
Cash flows from investing activities:		
Additions to property and equipment	(7,570)	(5,412)
Acquisitions of businesses	(880)	—
<b>Net cash used by investing activities</b>	<b>(8,450)</b>	<b>(5,412)</b>
Cash flows from financing activities:		
Borrowings under revolving credit facility	40,000	—
Repayments of borrowings under revolving credit facility	(40,000)	—
Proceeds from issuance of common stock	7,196	12,232
Excess tax benefits from stock-based awards	150	262
Payments of withholding taxes in connection with vesting of stock-based awards	(12,661)	(17,168)
<b>Net cash used by financing activities</b>	<b>(5,315)</b>	<b>(4,674)</b>
Effect of exchange rate changes on cash and cash equivalents	(3,247)	786
Net increase (decrease) in cash and cash equivalents	19,473	(57,338)
Cash and cash equivalents, beginning of period	167,878	240,253
Cash and cash equivalents, end of period	<u>\$ 187,351</u>	<u>\$ 182,915</u>

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

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

	Three months ended	
	December 31, 2011	January 1, 2011
Net income	\$ 22,123	\$ 13,260
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(5,070)	(2,990)
Minimum pension liability adjustment	145	119
Other comprehensive loss	(4,925)	(2,871)
Comprehensive income	\$ 17,198	\$ 10,389

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

**PARAMETRIC TECHNOLOGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

*General*

The accompanying unaudited condensed 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 in order to make the information not misleading, these unaudited quarterly financial statements should be read in conjunction with our annual consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. 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 mean our fiscal year, which ends on September 30. The September 30, 2011 consolidated balance sheet included herein is derived from our audited consolidated financial statements.

The results of operations for the three months ended December 31, 2011 are not necessarily indicative of the results expected for the remainder of the fiscal year.

*Recent Accounting Pronouncements*

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-8, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. Under the amendment, an entity has the option, but is not required, to first assess qualitative factors ("Qualitative Assessment" or QA) to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If, after assessing facts and circumstances in the aggregate, an entity determines it does not fail the QA, then performing the traditional two-step impairment test is unnecessary. Otherwise, an entity is required to proceed to the first step of the goodwill impairment test as outlined in ASC Topic 350. The objective of the Update is to simplify the requirement to test goodwill for impairment and was issued in response to preparer concerns about the cost and complexity of performing the first step of the two-step goodwill impairment test. The Update can be applied for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted.

**2. Deferred Revenue and Financing Receivables**

*Deferred Revenue*

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 31, 2011 and September 30, 2011 were \$84.4 million and \$93.0 million, respectively.

*Financing Receivables*

We periodically provide extended payment terms for software purchases to credit-worthy customers with payment terms up to 24 months. The determination on whether to offer such payment terms is based on the size, nature and credit-worthiness of the customer, and the history of collecting amounts due, without concession, from the customer. As of December 31, 2011 and September 30, 2011, amounts due from customers for contracts with extended payment terms (financing receivables) totaled \$75.6 million and \$72.3 million, respectively. Accounts receivable in the accompanying consolidated balance sheets include current receivables from such contracts totaling \$61.0 million and \$55.2 million at December 31, 2011 and September 30, 2011, respectively, and other assets in the accompanying consolidated balance sheets include long-term receivables from such contracts totaling \$14.6 million and \$17.1 million at December 31, 2011 and September 30, 2011, respectively. We evaluate estimated credit losses on financing receivables based on whether the customers are making payments as they become due, customer credit-worthiness and existing economic conditions. We write off uncollectible trade and financing receivables when we have exhausted all collection avenues. As of December 31, 2011 and September 30, 2011, we concluded that all financing receivables were collectible and no reserve for credit losses was recorded. We did not provide a

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reserve for credit losses or write off any uncollectible financing receivables in the three months ended December 31, 2011 and fiscal year 2011.

We periodically transfer future payments under certain of these contracts to third-party financial institutions on a non-recourse basis. We record such transfers as sales of the related accounts receivable when we surrender control of such receivables. We sold \$6.3 million of financing receivables to third-party financial institutions in the three months ended December 31, 2011. We sold no financing receivables to third-party financial institutions in the three months ended January 1, 2011.

### 3. Stock-based Compensation

We measure the cost of employee services received in exchange for restricted stock and restricted stock unit (RSU) awards based on the fair value of our common stock on the date of grant. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Our equity incentive plan provides for grants of nonqualified and incentive stock options, common stock, restricted stock, RSUs and stock appreciation rights to employees, directors, officers and consultants. We award restricted stock and RSUs as the principal equity incentive awards, including certain performance-based awards that are earned based on achievement of performance criteria established by the Compensation Committee of our Board of Directors. Each RSU represents the contingent right to receive one share of our common stock.

Our equity incentive plans are described more fully in Note K to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Restricted stock activity for the three months ended December 31, 2011	Shares	Weighted Average Grant Date Fair Value (Per Share)
	(in thousands)	
Balance of outstanding restricted stock September 30, 2011	90	\$ 21.30
Granted	9	\$ 21.27
Vested	(15)	\$ 15.36
Balance of outstanding restricted stock December 31, 2011	84	\$ 22.33

Restricted stock unit activity for the three months ended December 31, 2011	Shares	Weighted Average Grant Date Fair Value (Per Share)
	(in thousands)	
Balance of outstanding restricted stock units September 30, 2011	5,490	\$ 17.75
Granted	1,914	\$ 19.70
Vested	(1,760)	\$ 15.18
Forfeited or not earned	(127)	\$ 18.72
Balance of outstanding restricted stock units December 31, 2011	5,517	\$ 19.22

#### Restricted stock and restricted stock unit grants in the first three months of 2012

Grant Period	Restricted Stock (1)		Restricted Stock Units	
	Performance-based	Time-based	Performance-based (2)	Time-based (3)
	(in thousands)			
	(Number of Shares)		(Number of Units)	
First three months of 2012	—	9	786	1,128

- (1) The time-based shares of restricted stock were issued to a non-employee director in connection with a consulting contract we entered into with him. The restrictions on these shares lapse in two substantially equal annual installments from the date of grant.
- (2) Of these performance-based RSUs, 52,012 will be eligible to vest in two substantially equal installments on the later of each of November 15, 2012 and November 15, 2013 and the date the Compensation Committee determines the extent to which the performance criteria have been achieved and 424,258 will vest to the extent earned in three

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substantially equal installments on the later of November 15, 2012 and the date the Compensation Committee determines the extent to which performance criteria have been achieved, November 15, 2013 and November 15, 2014. The remaining 309,976 performance-based RSUs are eligible to vest in two substantially equal installments on the later of each of November 15, 2013 and November 15, 2014 and the date the Compensation Committee determines the extent to which the applicable performance criteria have been achieved; RSUs not earned for 2013 may be earned for 2014 to the extent the cumulative performance criteria are achieved.

- (3) The time-based RSUs were issued to employees, including some of our executive officers. These time-based RSUs will vest in three substantially equal annual installments in November 2012, 2013 and 2014.

**Classification of compensation expense recorded for our stock-based awards as reflected in our consolidated statements of operations**

	December 31, 2011	January 1, 2011
	(in thousands)	
Cost of license revenue	\$ 5	\$ 3
Cost of service revenue	2,513	2,137
Sales and marketing	3,728	2,429
Research and development	2,549	2,393
General and administrative	4,587	4,065
Total stock-based compensation expense	<u>\$ 13,382</u>	<u>\$ 11,027</u>

**4. Earnings per Share (EPS) and Common Stock***EPS*

Basic EPS is calculated by dividing net income by the weighted average number of shares outstanding during the period. Unvested restricted stock, although legally issued and outstanding, is not considered outstanding for purposes of calculating basic EPS. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding plus the dilutive effect, if any, of outstanding stock options, restricted shares and RSUs using the treasury stock method. The calculation of the dilutive effect of outstanding equity awards under the treasury stock method includes consideration of proceeds from the assumed exercise of stock options, unrecognized compensation expense and any tax benefits as additional proceeds.

	December 31, 2011	January 1, 2011
	(in thousands, except per share data)	
Net income	\$ 22,123	\$ 13,260
Weighted average shares outstanding—Basic	117,715	116,827
Dilutive effect of employee stock options, restricted shares and restricted stock units	2,861	4,323
Weighted average shares outstanding—Diluted	120,576	121,150
Earnings per share—Basic	\$ 0.19	\$ 0.11
Earnings per share—Diluted	\$ 0.18	\$ 0.11

Stock options to purchase 0.2 million shares for the first quarter of 2012 and 0.1 million shares for the first quarter of 2011 were outstanding but were not included in the calculation of diluted EPS because the exercise prices per share were greater than the average market price of our common stock for those periods. These shares were excluded from the computation of diluted EPS as the effect would have been anti-dilutive.

*Common Stock Repurchases*

Our Articles of Organization authorize us to issue up to 500 million shares of our common stock. Our Board of Directors has authorized us to repurchase up to \$100 million worth of shares with cash from operations in the period October 1, 2011 through September 30, 2012. We did not repurchase any shares in the first quarter of either 2012 or 2011. All shares of our common stock repurchased are automatically restored to the status of authorized and unissued.

## 5. Acquisitions

In 2011, we completed the acquisitions of MKS and 4CS described more fully in Note E to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. The results of operations of these acquired businesses have been included in our consolidated financial statements beginning on their respective acquisition dates. These acquisitions added \$18.5 million to our revenue for the three months ended December 31, 2011 and \$26.6 million of operating costs and expenses including acquisition-related costs of \$2.1 million and amortization of acquired intangible assets of \$3.4 million.

Acquisition-related costs include charges related to acquisition integration activities (i.e., severance and professional fees). These costs have been classified in general and administrative expenses in the accompanying consolidated statements of operations.

### 4CS

On September 2, 2011, we acquired all of the outstanding common stock of 4C Solutions, Inc. (4CS) for \$14.9 million in cash (net of \$0.1 million of cash acquired). 4CS's results of operations have been included in our consolidated financial statements beginning September 3, 2011. Our results of operations prior to this acquisition, if presented on a pro forma basis, would not differ materially from our reported results.

As of September 30, 2011, we had recorded a liability for an additional \$1.2 million of contingent purchase price included in accrued expenses and other current liabilities on the consolidated balance sheet. In the first quarter of 2012 we paid \$0.9 million of this contingent purchase price and we expect to pay the remainder in the second quarter of 2012. Any further adjustments that could lower the purchase price in accordance with contingent provisions in the acquisition agreement are not anticipated to be material.

### MKS

On May 31, 2011, we acquired all of the outstanding common stock of MKS Inc. (MKS) for \$265.2 million, net of \$33.2 million of cash acquired. MKS's results of operations have been included in our consolidated financial statements beginning May 31, 2011.

The unaudited financial information in the table below summarizes the combined results of operations of PTC and MKS, on a pro forma basis, as though the companies had been combined as of the beginning of PTC's fiscal year 2010. The pro forma information presented includes the effects of business combination accounting resulting from the acquisition, including amortization charges from acquired intangibles assets, stock-based compensation charges for unvested stock options, interest expense on borrowings in connection with the acquisition, and the related tax effects as though the acquisition had been consummated as of the beginning of 2010. These pro forma results exclude the impact of the purchase accounting adjustment to deferred revenue and the transaction costs included in the historical results and the related tax effects. The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that actually would have been achieved if the acquisition had taken place at the beginning of 2010. The pro forma financial information is based on PTC's results of operations for the three months ended January 1, 2011, combined with MKS's results of operations for the three months ended January 31, 2011 (due to differences in reporting periods).

	<b>Three months ended</b>	
	<b>January 1,</b>	
	<b>2011</b>	
	<b>(in millions, except per share amounts)</b>	
Revenue	\$	284.5
Net income	\$	12.5
Earnings per share—Basic	\$	0.11
Earnings per share—Diluted	\$	0.10

## 6. Goodwill and Intangible Assets

We have two reportable segments: (1) software products and (2) services. As of December 31, 2011 and September 30, 2011, goodwill and acquired intangible assets in the aggregate attributable to our software products reportable segment was \$793.1 million and \$806.0 million, respectively, and attributable to our services reportable segment was \$29.0 million and \$29.4 million, respectively. Goodwill is tested for impairment at least annually, or on an interim basis if an event occurs or

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circumstances change that would, more likely than not, reduce the fair value of the reporting segment below its carrying value. We completed our most recent annual impairment review as of July 2, 2011 and concluded that no impairment charge was required as of that date. Acquired intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Goodwill and acquired intangible assets consisted of the following:

	December 31, 2011			September 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(in thousands)					
Goodwill (not amortized)			\$ 610,139			\$ 613,394
Intangible assets with finite lives (amortized)						
(1):						
Purchased software	\$ 176,769	\$ 115,247	61,522	\$ 178,388	\$ 112,555	65,833
Capitalized software	22,877	22,877	—	22,877	22,877	—
Customer lists and relationships	226,461	78,997	147,464	227,961	75,050	152,911
Trademarks and trade names	10,973	8,192	2,781	11,035	7,967	3,068
Other	3,450	3,286	164	3,506	3,301	205
	<u>\$ 440,530</u>	<u>\$ 228,599</u>	<u>211,931</u>	<u>\$ 443,767</u>	<u>\$ 221,750</u>	<u>222,017</u>
Total goodwill and acquired intangible assets			<u>\$ 822,070</u>			<u>\$ 835,411</u>

(1) The weighted average useful lives of purchased software, customer lists and relationships, trademarks and trade names and other intangible assets with a remaining net book value are 8 years, 10 years, 6 years, and 4 years, respectively.

*Goodwill*

The changes in the carrying amounts of goodwill for the three months ended December 31, 2011 are due to foreign currency translation adjustments related to those asset balances that are recorded in non-U.S. currencies.

Changes in goodwill for the three months ended December 31, 2011, presented by reportable segment, are as follows:

	Software Products Segment	Services Segment	Total
	(in thousands)		
Balance, September 30, 2011	\$ 588,443	\$ 24,951	\$ 613,394
Foreign currency translation adjustments	(3,195)	(60)	(3,255)
Balance, December 31, 2011	<u>\$ 585,248</u>	<u>\$ 24,891</u>	<u>\$ 610,139</u>

*Amortization of intangible assets*

The aggregate amortization expense for intangible assets with finite lives recorded for the first three months of 2012 and 2011 was classified in our consolidated statements of operations as follows:

	December 31, 2011	January 1, 2011
	(in thousands)	
Amortization of acquired intangible assets	\$ 5,209	\$ 3,854
Cost of license revenue	4,103	3,363
Total amortization expense	<u>\$ 9,312</u>	<u>\$ 7,217</u>

The estimated aggregate future amortization expense for intangible assets with finite lives remaining as of December 31,

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2011 is \$26.9 million for the remainder of 2012, \$36.0 million for 2013, \$33.9 million for 2014, \$30.5 million for 2015, \$23.0 million for 2016, \$19.4 million for 2017 and \$42.2 million thereafter.

## 7. Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. Generally accepted accounting principles prescribe a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs that may be used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our significant financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and September 30, 2011 were as follows:

	December 31, 2011	September 30, 2011
	(in thousands)	
<b>Financial assets:</b>		
Cash equivalents—Level 1 (1)	\$ 66,211	\$ 36,018
Forward contracts—Level 2	42	5,510
	<u>\$ 66,253</u>	<u>\$ 41,528</u>

(1) Money market funds and time deposits.

## 8. Derivative Financial Instruments

Our foreign currency risk management strategy is principally designed to mitigate the future potential financial impact of changes in the value of transactions and balances denominated in foreign currency resulting from changes in foreign currency exchange rates. We enter into derivative transactions, specifically foreign currency forward contracts with maturities of less than three months, to manage our exposure to fluctuations in foreign exchange rates that arise primarily from our foreign currency-denominated receivables and payables.

Generally, we do not designate foreign currency forward contracts as hedges for accounting purposes, and changes in the fair value of these instruments are recognized immediately in earnings. Because we enter into forward contracts only as an economic hedge, any gain or loss on the underlying foreign-denominated balance would be offset by the loss or gain on the forward contract. Gains and losses on forward contracts and foreign denominated receivables and payables are included in other income (expense), net.

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As of December 31, 2011 and September 30, 2011, we had outstanding forward contracts with notional amounts equivalent to the following:

Currency Hedged	December 31,	September 30,
	2011	2011
	(in thousands)	
Canadian Dollar / U.S. Dollar	\$ 73,571	\$ 92,748
Euro / U.S. Dollar	55,623	65,773
Canadian Dollar / Euro	23,499	—
Chinese Renminbi / U.S. Dollar	14,780	19,973
Japanese Yen / U.S. Dollar	13,374	13,676
Swiss Franc / U.S. Dollar	8,932	9,419
British Pound / Euro	6,127	3,993
All other	10,875	7,350
Total	<u>\$ 206,781</u>	<u>\$ 212,932</u>

The accompanying consolidated balance sheets as of December 31, 2011 and September 30, 2011 include a net asset of \$0.1 million and \$5.5 million, respectively, in other current assets related to the fair value of our forward contracts.

Net gains and losses on foreign currency exposures, including realized and unrealized gains and losses on forward contracts, included in foreign currency net losses, were net losses of \$2.2 million for the three months ended December 31, 2011 and January 1, 2011. Excluding the underlying foreign currency exposure being hedged, net realized and unrealized gains and losses on forward contracts included in foreign currency net losses, were a net loss of \$0.7 million and a net gain of \$1.3 million for the three months ended December 31, 2011 and January 1, 2011, respectively.

#### 9. Segment Information

We operate within a single industry segment—computer software and related services. Operating segments as defined under GAAP are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our President and Chief Executive Officer. We have two operating and reportable segments: (1) Software Products, which includes license and related maintenance revenue (including updates and technical support) for all our products except training-related products; and (2) Services, which includes consulting, implementation, training, computer-based training products, including maintenance on these products, and other support revenue. In our consolidated statements of operations, maintenance revenue is included in service revenue. We do not allocate sales and marketing or administrative expenses to our operating segments as these activities are managed on a consolidated basis.

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The revenue and operating income attributable to our operating segments are summarized as follows:

	Three months ended	
	December 31, 2011	January 1, 2011
	(in thousands)	
Revenue:		
Total Software Products segment revenue	\$ 236,963	\$ 201,910
Total Services segment revenue	81,313	64,642
<b>Total revenue</b>	<b>\$ 318,276</b>	<b>\$ 266,552</b>
Operating income:		
Software Products segment	\$ 151,961	\$ 126,519
Services segment (1)	7,894	(1,404)
Sales and marketing expenses	(97,778)	(84,521)
General and administrative expenses	(29,572)	(23,484)
<b>Total operating income</b>	<b>\$ 32,505</b>	<b>\$ 17,110</b>

- (1) In the first quarter of 2011, we made a strategic decision to enter into a contract with a customer in the automotive industry, for which we expected our costs to exceed our revenue by approximately \$5 million. Services segment operating income in the first three months of 2011 included immediate recognition of the approximately 5 million estimated loss on this contract.

We report revenue by product group, Desktop and Enterprise. Desktop revenue includes our CAD Solutions, primarily: Creo Parametric, Creo Elements/Direct, Mathcad and Arbortext authoring products. Enterprise revenue includes our PLM solutions, primarily: Windchill, Arbortext enterprise products, Creo View and Integrity. Data for the three months ended January 1, 2011 includes immaterial reclassifications between product groupings made to conform to the current classification.

	Three months ended	
	December 31, 2011	January 1, 2011
	(in thousands)	
Revenue:		
Desktop	\$ 153,863	\$ 146,256
Enterprise	164,413	120,296
<b>Total revenue</b>	<b>\$ 318,276</b>	<b>\$ 266,552</b>

Data for the geographic regions in which we operate is presented below.

	Three months ended	
	December 31, 2011	January 1, 2011
	(in thousands)	
Revenue:		
Americas (1)	\$ 117,490	\$ 100,093
Europe (2)	133,175	107,876
Pacific Rim	37,250	33,612
Japan	30,361	24,971
<b>Total revenue</b>	<b>\$ 318,276</b>	<b>\$ 266,552</b>

- (1) Includes revenue in the United States totaling \$110.7 million and \$95.5 million for the three months ended December 31, 2011 and January 1, 2011, respectively.
- (2) Includes revenue in Germany totaling \$56.2 million and \$33.3 million for the three months ended December 31, 2011

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and January 1, 2011, respectively.

## 10. Income Taxes

In the first quarter of 2012, our effective tax rate was a provision of 26% on pre-tax income of \$29.9 million, compared to a provision of 13% on pre-tax income of \$15.2 million in the first quarter of 2011. In the first quarter of 2012, our effective tax rate was lower than the 35% statutory federal income tax rate due primarily to our corporate structure in which our foreign taxes are at a net effective tax rate lower than the U.S. rate. Our provision includes the expiration on December 31, 2011 of the research and development (R&D) credit in the U.S. and a discrete non-cash charge of \$1.5 million related to the impact of a Japanese legislative change, enacted in the first quarter, on our Japan entity's deferred tax assets. Additionally, we expect to make an R&D cost sharing prepayment by a foreign subsidiary to the U.S. at the same level as the prior year. If such prepayment is not ultimately paid within the fiscal year, the effective tax rate would be favorably impacted by up to \$7.5 million. In the first quarter of 2011, our effective tax rate was lower than the 35% statutory federal income tax rate due primarily to our corporate tax structure in which our foreign taxes are at a net effective tax rate lower than the U.S. rate and a \$1.8 million tax benefit related to R&D credits in the U.S. triggered by a retroactive extension of the R&D tax credit enacted in the first quarter of 2011.

As of December 31, 2011 and September 30, 2011, we had unrecognized tax benefits of \$16.8 million (\$16.4 million net of state tax benefits) and \$16.2 million (\$15.9 million net of state tax benefits), respectively. If all of our unrecognized tax benefits as of December 31, 2011 were to become recognizable in the future, we would record a \$15.9 million benefit to the income tax provision.

Our policy is to record estimated interest and penalties related to the underpayment of income taxes as a component of our income tax provision. In the first three months of 2012 and 2011 we included \$0.1 million of interest expense and no tax penalty expense in our income tax provision. As of December 31, 2011 and September 30, 2011 we had accrued \$2.1 million and \$2.0 million, respectively, of estimated interest expense and we had no accrued tax penalties. Changes in our unrecognized tax benefits in the three months ended December 31, 2011 were as follows:

	(in millions)
Balance as of October 1, 2011	\$ 16.2
Tax positions related to current year	0.4
Tax positions related to prior years	0.2
Balance as of December 31, 2011	\$ 16.8

Although we believe our tax estimates are appropriate, the final determination of tax audits and any related litigation could result in favorable or unfavorable changes in our estimates. We believe it is reasonably possible that within the next 12 months the amount of unrecognized tax benefits and accrued interest related to the resolution of multi-jurisdictional tax positions could be reduced by up to \$6.0 million as audits close and statutes expire.

In the normal course of business, PTC and its subsidiaries are examined by various taxing authorities, including the Internal Revenue Service in the United States. As of December 31, 2011, we remained subject to examination in the following major tax jurisdictions for the tax years indicated:

<u>Major Tax Jurisdiction</u>	<u>Open Years</u>
United States	2003, 2008 through 2011
Germany	2007 through 2011
France	2007 through 2011
Japan	2005 through 2011
Ireland	2006 through 2011

## 11. Long Term Debt

### *Revolving Credit Agreement*

We have a multi-currency bank revolving credit facility (the credit facility) with a syndicate of ten banks for which JPMorgan Chase Bank, N.A. acts as Administrative Agent. The credit facility matures on September 30, 2016, when all amounts will be due and payable in full. The credit facility does not require amortization of principal and may be paid before maturity in whole or in part at PTC's option without penalty or premium. We expect to use the credit facility for general

corporate purposes, including acquisitions of other businesses, and may also use it for working capital.

The credit facility consists of a \$300 million revolving credit facility, which may be increased by up to an additional \$150 million if the existing or additional lenders are willing to make such increased commitments (such increase may also be used, in whole or in part, for term loans). PTC is the sole borrower under the credit facility. The obligations under the credit facility are guaranteed by PTC's material domestic subsidiaries and 65% of the voting equity interests of PTC's material first-tier foreign subsidiaries are pledged as collateral for the obligations.

In May 2011, in connection with our acquisition of MKS, we borrowed \$250 million under the credit facility at a variable interest rate which resets every 30 to 180 days, depending on the rate and period selected. From October 1, 2011, through November 21, 2011 the annual rate was 1.6875%. From November 22, 2011 through February 22, 2012 the annual rate is 1.875%, which will reset on February 22, 2012 to then current rates as defined below. As of both December 31, 2011 and September 30, 2011 we had \$200 million outstanding under the credit facility. During the three months ended December 31, 2011, we borrowed and then repaid \$40 million under the credit facility for short term cash requirements.

Interest rates on borrowings outstanding under the credit facility range from 1.25% to 1.625% above an adjusted LIBO rate for Eurodollar-based borrowings or would range from 0.25% to 0.625% above the defined base rate (the greater of the Prime Rate, the Federal Funds Effective Rate plus 0.005%, or an adjusted LIBO rate plus 1%) for base rate borrowings, in each case based upon PTC's leverage ratio. Additionally, PTC may borrow certain foreign currencies at rates set in the same range above the respective London interbank offered interest rates for those currencies, based on PTC's leverage ratio. A quarterly commitment fee on the undrawn portion of the credit facility is required, ranging from 0.20% to 0.30% per annum, based upon PTC's leverage ratio.

The credit facility limits PTC's and its subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; pay dividends (other than to PTC) and make other distributions; make investments and enter into joint ventures; dispose of assets; and engage in transactions with affiliates, except on an arms-length basis. Under the credit facility, PTC and its material domestic subsidiaries may not invest cash or property in, or loan to, PTC's foreign subsidiaries in aggregate amounts exceeding \$50 million for any purpose and an additional \$75 million for acquisitions of businesses. In addition, under the credit facility, PTC and its subsidiaries must maintain the following financial ratios:

- a leverage ratio, defined as consolidated funded indebtedness to consolidated trailing four quarters EBITDA, of no greater than 2.50 to 1.00 at any time; and
- a fixed charge coverage ratio, defined as the ratio of consolidated trailing four quarters EBITDA less consolidated capital expenditures to consolidated fixed charges, of no less than 1.25 to 1.00 at any time.

As of December 31, 2011, our leverage ratio was 0.78 to 1.00 and our fixed charge coverage ratio was 3.52 to 1.00. We were in compliance with all financial and operating covenants of the credit facility as of December 31, 2011.

Any failure to comply with the financial or operating covenants of the credit facility would prevent PTC from being able to borrow additional funds, and would constitute a default, permitting the lenders to, among other things, accelerate the amounts outstanding, including all accrued interest and unpaid fees, under the credit facility and to terminate the credit facility. A change in control of PTC, as defined in the agreement, also constitutes an event of default, permitting the lenders to accelerate the indebtedness and terminate the credit facility.

## **12. Commitments and Contingencies**

### ***Legal and Regulatory Matters***

#### ***China Investigation***

We have undertaken an investigation of payments by certain business partners and expenses by certain employees in China that raise questions of compliance with laws, including the Foreign Corrupt Practices Act, and/or compliance with our business policies. In connection with this matter, we have terminated certain employees and business partners in China, which may have an adverse impact on our level of sales in China until such replacements for those employees and business partners are in place and productive. Revenue from China has historically represented 6% to 7% of our total revenue. We have voluntarily disclosed the results of our investigation and associated remedial actions to the United States Department of Justice and the Securities and Exchange Commission and are cooperating to provide additional information as requested. We are unable to predict the outcome of this matter, which could include fines or other sanctions.

*Other Legal Proceedings*

We are subject to various legal proceedings and claims that arise in the ordinary course of business. With respect to such proceedings and claims, we record an accrual for a contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. For legal proceedings and claims for which the likelihood that a liability has been incurred is more than remote but less than probable, we estimate the range of possible outcomes.

As of both December 31 and September 30, 2011, we had a legal proceedings and claims accrual of \$0.4 million. We do not believe that resolving the legal proceedings and claims that we are currently subject to will have a material adverse impact on our financial condition, results of operations or cash flows. However, the results of legal proceedings cannot be predicted with certainty. Should any of these legal proceedings and claims be resolved against us, the operating results for a particular reporting period could be adversely affected.

***Guarantees and Indemnification Obligations***

We enter into standard indemnification agreements in the ordinary course of our business. Pursuant to such agreements with our business partners or customers, we indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to our current products, as well as claims relating to property damage or personal injury resulting from the performance of services by us or our subcontractors. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. Historically, our costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and we accordingly believe the estimated fair value of these agreements is immaterial.

We warrant that our software products will perform in all material respects in accordance with our standard published specifications in effect at the time of delivery of the licensed products for a specified period of time. Additionally, we generally warrant that our consulting services will be performed consistent with generally accepted industry standards. In most cases, liability for these warranties is capped. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history; however, we have not incurred significant cost under our product or services warranties. As a result, we believe the estimated fair value of these agreements is immaterial.

**13. Subsequent Event**

On January 19, 2012, we adopted a plan to restructure our workforce in part to enhance profitability and in part in connection with an organizational realignment of our business. We expect to record a restructuring charge of approximately \$20 million in the second quarter of 2012 for severance and related costs associated with a workforce reduction of approximately 3%. Cash expenditures of the same amount are expected to be paid by the end 2012. As of the end of the first quarter of 2012, we had 6,110 employees worldwide.

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

### Forward-Looking Statements

*Statements in this Quarterly Report on Form 10-Q about our future financial and growth expectations, the development of our products and markets, adoption of our solutions and future purchases by customers, and the expected impact of our strategic investments and product releases on our business are forward-looking statements that are subject to the inherent uncertainties in predicting future results and conditions. Risks and uncertainties that could cause actual results to differ materially from projected results include the following: our customers may not purchase our solutions when or at the rates we expect; we may not achieve the license, service or maintenance growth rates we expect, which could result in a different mix of revenue between license, service and maintenance and could adversely affect our profitability; the possibility that foreign currency exchange rates may vary from our expectations and thereby affect our reported revenue and expense; our strategic investments, including adding sales personnel, may not generate the revenue or have the effects we expect; we may be unable to attain or maintain a technology leadership position and any such leadership position may not generate the revenue we expect; the acquisitions of MKS and 4CS may not generate the revenue we expect; our ability to successfully differentiate our products and services from those of our competitors and otherwise compete could be adversely affected by the relatively larger size and greater resources of several of the companies with which we compete; the possibility that remedial actions related to our previously announced investigation in China may have a material impact on our operations in China, as well as other risks and uncertainties described below throughout or referenced in Part II, Item 1A. Risk Factors of this report.*

### Our Business

Parametric Technology Corporation (PTC) develops, markets and supports solutions that span the entire product lifecycle, from engineering product design through supply chain and after-market services. Our software solutions provide our customers with an integral product development system that enables them to create digital product content, collaborate with others in the product development process, control product content, automate product development processes, configure products and product content, and communicate product information to people and systems across the extended enterprise and design chain.

Our solutions in the product lifecycle management, or PLM, market (product data management, collaboration and related solutions); the CAD market (computer-aided design solutions); and the application lifecycle management, or ALM, market (software development solutions within product development) help companies design products, manage product information and improve their product development processes. Our solutions in the supply chain management, or SCM, market (product sourcing, design and compliance solutions) and the service lifecycle management, or SLM, market (after-market service and support solutions) help companies manage product performance, reliability and safety and ensure that updates in product development are reflected in real-time service and spare parts information throughout a product's service lifecycle.

Our software solutions help customers increase innovation, improve product quality, decrease time to market, and reduce product development costs.

We generate revenue through the sale of:

- software licenses,
- maintenance services, which include technical support and software updates, and
- consulting and training services, which include implementation services for our software.

The markets we serve present different growth opportunities for us. We believe the markets among large businesses for PLM, ALM, SLM and SCM solutions (which we refer to as our "Enterprise Solutions") present the greatest opportunity for revenue growth for us and that revenue from these markets will constitute an increasingly greater proportion of our revenue over time. We believe that the market for our CAD solutions (which we refer to as our "Desktop Solutions") among small- and medium-size businesses also provides an opportunity for future growth. Conversely, the market for our CAD solutions among large businesses is highly penetrated and presents a lower growth opportunity for us. However, we believe that our Creo product suite, which we released in June 2011, has created a growth opportunity for us in this market.

Our solutions are complemented by our experienced services and technical support organizations which provide consulting, implementation and training support services to customers worldwide. Resellers supplement this direct sales force to provide greater geographic and small- and medium-size account coverage, while other strategic partners provide product and/or service offerings that complement our solutions.

## Executive Overview

We had a good start to 2012 with first quarter revenue of \$318.3 million, representing 19% revenue growth over the first quarter of 2011 (18% on a constant currency basis). We posted growth across our license, maintenance and services lines of business, which we attribute to increased demand for our products and services as a result of our competitive positioning, significant new product releases during 2011 and improvement in the economy. Specific items that contributed significantly to our revenue results for the quarter include:

- Strength in our Enterprise business, continuing the momentum we experienced in the fourth quarter of 2011, with revenue up 37% year over year (21% on an organic basis) and Enterprise (PLM) license revenue up 41% year over year (27% on an organic basis). MKS Inc., acquired in the third quarter of 2011, contributed \$15.9 million to total Enterprise revenue (\$17.4 million on a non-GAAP basis) in the first quarter of 2012.
- Total revenue in our Desktop business increased 5% year over year despite a decrease of 1% in Desktop license revenue year over year, which decline we attribute to very strong comparable license results in the first quarter of 2011. Desktop maintenance revenue and seats under maintenance were both up 8% year over year.

Our non-GAAP operating margin increased to 18% in the first quarter of 2012 from 13% in the first quarter of 2011 (to 10% from 6% on a GAAP basis) due to increased revenue, lower than planned operating expenses as we remained vigilant on all non-sales related hiring, and improved services margins. The first quarter of 2011 operating margin was unfavorably impacted by a \$5 million loss recorded as cost of service expense related to a strategic contract with a large automotive OEM. Our non-GAAP diluted earnings per share was \$0.35, up from \$0.22 in the first quarter of 2011 (to \$0.18 from \$0.11 on a GAAP basis). (Non-GAAP measures are reconciled to GAAP results under *Income and Margins; Earnings per Share* below.)

As part of our ongoing strategy to enhance customer focus, expand our addressable market opportunities and accelerate profitability, we are implementing an organizational realignment and a restructuring of our business. We are implementing a workforce reduction of approximately 3%, which we expect will result in quarterly operating expense savings of approximately \$5 million beginning in the third quarter of 2012. We expect to complete these restructuring actions in the second quarter of 2012 and to incur a charge of approximately \$20 million in that quarter. Cash expenditures of the same amount are expected to be paid by the end of the year, with most of the payments occurring in the second and third quarters. As of the end of the first quarter of 2012, we had 6,110 employees worldwide.

We expect the near-term cost savings from this restructuring and the longer-term benefit of our organizational realignment will improve efficiencies within our sales and services organizations and improve our operating margins. As a result of these initiatives, along with progress we have already made on improving our operating margins, we have increased our 2012 and long-term operating margin expectations as described in *Future Expectations, Strategies and Risks* below.

We had \$36 million in cash provided by operating activities during the quarter and ended the quarter with \$187 million of cash, an increase of \$19 million from September 30, 2011. We also have \$100 million available under our revolving credit facility.

### ***Revenue, Operating Margin, Earnings per Share and Cash Flow from Operations***

The following table shows the financial measures that we consider the most significant indicators of the performance of our business. In addition to providing operating income, operating margin, and diluted earnings per share as calculated under generally accepted accounting principles ("GAAP"), we also show non-GAAP operating income, operating margin, and diluted earnings per share for the reported periods. These non-GAAP measures exclude a fair value adjustment related to acquired deferred maintenance revenue, stock-based compensation, amortization of acquired intangible assets expense, acquisition-related charges, restructuring charges, one-time charges included in non-operating other income (expense) and the related tax effects of the preceding items, and any one-time tax items. Excluding those expenses and one-time items provides investors another view of our operating results which is aligned with management budgets and with performance criteria in our incentive compensation plans. Management uses, and investors should use, non-GAAP measures in conjunction with our GAAP results. We discuss the non-GAAP measures in detail under *Income and Margins; Earnings per Share* below.

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	Three Months Ended		Percent Change 2011 to 2012	
	December 31, 2011	January 1, 2011	Actual	Constant Currency
(Dollar amounts in millions, except per share data)				
License revenue	\$ 89.1	\$ 75.5	18%	17%
Consulting and training service revenue	75.6	59.7	27%	26%
Maintenance revenue	153.6	131.4	17%	15%
Total revenue	318.3	266.6	19%	18%
Total costs and expenses	285.8	249.5	15%	14%
Operating income (1)	\$ 32.5	\$ 17.1	90%	81%
Non-GAAP operating income (1)	\$ 58.8	\$ 35.3	66%	62%
Operating margin (1)	10%	6%		
Non-GAAP operating margin (1)	18%	13%		
Diluted earnings per share	\$ 0.18	\$ 0.11		
Non-GAAP diluted earnings per share	\$ 0.35	\$ 0.22		
Cash flow from operations (2)	\$ 36.5	\$ (48.0)		

(1) In the first quarter of 2011, we entered into a strategic contract with an automotive customer for which we expected costs to exceed revenue by approximately \$5 million. This loss was recorded in the first quarter of 2011 and resulted in a decrease in GAAP and non-GAAP operating income of approximately \$5 million.

(2) In the first quarter of 2011, we used \$48 million, net, of cash in connection with the resolution of a litigation matter.

In the first quarter of 2012, we had growth in all lines of business with license revenue up 18%, maintenance revenue up 17% (18% on a non-GAAP basis) and consulting and training service revenue up 27%, reflecting increased demand for our products and services. We attribute this increased demand to the strength of our products and improvement in the economy. We have seen continued strength in maintenance and consulting services following strong license revenue in both 2011 and 2010.

Additionally, we acquired MKS Inc. on May 31, 2011 and 4C Solutions, Inc. (4CS) on September 2, 2011. MKS and 4CS contributed \$18.5 million to first quarter of 2012 revenue (\$20.0 million on a non-GAAP basis). Excluding the impact of MKS and 4CS, our total revenue was \$299.8 million and our license revenue was \$84.4 million, which were both up 12% over the first quarter of 2011.

In the first quarter of 2012, license and total revenue from direct customers were both up 22% year over year (16% and 15% on an organic basis, respectively), attributable to an increase in the amount of revenue from large customers. We also saw continued overall strength in the small- and medium-size business market in the first quarter of 2012, compared to the first quarter of 2011, with indirect license revenue and total indirect revenue up 8% and 12%, respectively (2% and 7% on an organic basis, respectively). This was our eighth consecutive quarter of year-over-year indirect license revenue and total indirect revenue growth.

Our GAAP and non-GAAP operating income improved due to higher margins, particularly in our services business, coupled with slower growth in operating expenses.

***Future Expectations, Strategies and Risks***

Based on the the first quarter of 2012 and fiscal 2011 results, current economic conditions and spending patterns, the competitive strength of our products, additional sales capacity and a full year of revenue contribution from MKS, for fiscal year 2012 we are targeting non-GAAP and GAAP revenue growth of 12% to 14% despite an expected negative impact of currency movements (particularly the Euro) relative to our original fiscal 2012 plan. Changes in foreign currency rates relative to the U.S. dollar can significantly impact our results. Our current plan assumes \$1.30 USD to Euro rate. We expect MKS and 4CS to contribute approximately \$90 million to \$100 million in revenue for the full year, including \$3 million in non-GAAP revenue. We are expecting license revenue growth of approximately 17%, non-GAAP and GAAP maintenance revenue growth of approximately 10%, and consulting and training service revenue growth of approximately 14%.

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Our commitment to operating margin expansion is a cornerstone of our financial strategy, which is reflected in our margin performance in the first quarter and our outlook for 2012 and beyond. Our goal is to improve non-GAAP operating margins by 200 basis points in 2012, from approximately 18% in 2011 to approximately 20% in 2012, through operating leverage, impact of the restructuring, our on-going focus on operating margin improvements and cost efficiency, and improved services margins in our consulting and training services business. Our expectation for services revenue growth has increased due to continued momentum of our PLM solutions and demand for associated services. We are also anticipating that services margins will increase for the year due to increased revenue and expanded use of our strategic services partners.

Based on our outlook for the business, our restructuring actions and the expected long term benefits of our business realignment and expected cost efficiencies, we recently announced that we are initiating a new long term plan for 2015. Through 2015, we are targeting 11% to 13% annual revenue growth, and we are targeting non-GAAP operating margins of 25% to 27% in 2015.

We acknowledge that there continues to be significant uncertainty regarding the strength of the global economy. While we are continuing to add sales capacity to address our expanded market opportunities, at the same time we continue to be disciplined about broader staffing and spending plans.

Our results have been impacted, and we expect will continue to be impacted, by revenue from large customers. The amount of revenue, particularly license revenue, attributable to large transactions, and the number of such transactions, may vary significantly from quarter to quarter based on customer purchasing decisions and macroeconomic conditions. Our growth rates have become increasingly dependent on adoption of our PLM solutions among large direct customers. Such transactions tend to be larger in size and may have long lead times as they often follow a lengthy product selection and evaluation process. This may cause increased volatility in our results. Our revenue and operating results may also continue to be impacted by currency fluctuations.

### *Impact of an Investigation in China*

As previously disclosed, we have undertaken an investigation of payments by certain business partners and expenses by certain employees in China that raise questions of compliance with laws, including the Foreign Corrupt Practices Act, and/or compliance with our business policies. In connection with this matter, we have terminated certain employees and business partners in China, which may have an adverse impact on our level of sales in China until such replacements for those employees and business partners are in place and productive. Revenue from China has historically represented 6% to 7% of our total revenue. We have voluntarily disclosed the results of our investigation and associated remedial actions to the United States Department of Justice and the Securities and Exchange Commission and are cooperating to provide additional information as requested. We are unable to predict the outcome of this matter, which could include fines or other sanctions.

## **Results of Operations**

### *Acquisitions*

We acquired MKS on May 31, 2011 and 4C Solutions, Inc. (4CS) on September 2, 2011. The results of operations of acquired businesses have been included in PTC's consolidated financial statements beginning on their respective acquisition dates. These acquisitions added \$18.5 million to our first quarter of 2012 revenue (\$20.0 million on a non-GAAP basis), and added \$26.6 million of operating costs and expenses (including acquisition-related costs of \$2.1 million and amortization of acquired intangible assets of \$3.4 million and stock-based compensation from converted unvested MKS options of \$0.3 million), or \$20.8 million on a non-GAAP basis. As a result, these acquisitions unfavorably impacted our GAAP and non-GAAP operating income by approximately \$8 million and \$1 million, respectively, for the first quarter of 2012. MKS and 4CS revenue is classified as "Enterprise" revenue.

### *Impact of Foreign Currency Exchange on Results of Operations*

Approximately two-thirds of our revenue and half of our expenses are transacted in currencies other than the U.S. Dollar. Because we report our results of operations in U.S. Dollars, currency translation, particularly changes in the Euro and Yen, relative to U.S. Dollar, affects our reported results. If actual reported results for the first quarter of 2012 had been converted into U.S. Dollars based on the foreign currency exchange rates in effect for the comparable 2011 period, GAAP and non-GAAP revenue would have been lower by \$3.2 million in the first quarter of 2012 and GAAP and non-GAAP expenses would have been lower by \$1.6 million. As a result, at foreign currency exchange rates consistent with the first quarter of 2011, GAAP and non-GAAP operating income in the first quarter of 2012 would have been \$1.6 million lower. Revenue by line of business and revenue by geographic region in the tables that follow present both actual percentage changes year over year and percentage changes year over year on a constant currency basis, calculated by multiplying the actual results for the first quarter of 2012 by

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the exchange rates in effect for the comparable period in 2011.

**Revenue**

Desktop revenue includes our CAD Solutions: Creo Parametric, Creo Elements/Direct, Arbortext authoring products and Mathcad. Enterprise revenue includes our PLM solutions: Windchill, Arbortext enterprise products, Creo View, and Integrity.

Direct revenue includes sales made primarily by our direct sales force to large businesses. Indirect revenue includes sales by our reseller channel, primarily to small- and medium-size businesses, as well as revenue from other accounts that we have classified as indirect. If the classification of a customer changes between direct and indirect, we reclassify the historical revenue associated with that customer to align with the current period classification. Such reclassifications were not material in the periods presented.

Enterprise maintenance revenue in the first quarter of 2012 includes a fair value adjustment related to acquired deferred MKS maintenance revenue of \$1.5 million. Non-GAAP revenue excludes this adjustment. Accordingly, references to non-GAAP revenue, non-GAAP Enterprise revenue, non-GAAP maintenance revenue and MKS non-GAAP revenue in the previous and following discussion are higher than the corresponding GAAP revenue by \$1.5 million.

**Revenue by Product Group and Distribution Channel**

	Desktop Three Months Ended			Enterprise Three Months Ended			Total Revenue Three Months Ended		
	December 31, 2011	January 1, 2011	Percent Change	December 31, 2011	January 1, 2011	Percent Change	December 31, 2011	January 1, 2011	Percent Change
(Dollar amounts in millions)									
<b>Direct</b>									
License revenue	\$ 23.2	\$ 24.3	(5)%	\$ 41.4	\$ 28.5	45%	\$ 64.6	\$ 52.8	22%
<b>Service revenue:</b>									
Consulting and training service revenue	9.2	9.3	—%	62.2	48.0	30%	71.5	57.3	25%
Maintenance revenue	54.7	50.2	9%	41.6	29.9	39%	96.4	80.1	20%
Total service revenue	63.9	59.5	8%	103.8	77.9	33%	167.9	137.3	22%
Total revenue	\$ 87.2	\$ 83.7	4%	\$ 145.3	\$ 106.4	37%	\$ 232.5	\$ 190.1	22%
<b>Indirect</b>									
License revenue	\$ 17.7	\$ 16.9	5%	\$ 6.8	\$ 5.8	17%	\$ 24.5	\$ 22.7	8%
<b>Service revenue:</b>									
Consulting and training service revenue	1.4	1.3	7%	2.8	1.2	134%	4.2	2.5	69%
Maintenance revenue	47.6	44.4	7%	9.5	6.9	37%	57.2	51.3	11%
Total service revenue	49.0	45.7	7%	12.3	8.1	52%	61.3	53.8	14%
Total revenue	\$ 66.7	\$ 62.5	7%	\$ 19.1	\$ 13.9	37%	\$ 85.8	\$ 76.5	12%
<b>Total Revenue</b>									
License revenue	\$ 40.9	\$ 41.2	(1)%	\$ 48.2	\$ 34.3	41%	\$ 89.1	\$ 75.5	18%
<b>Service revenue:</b>									
Consulting and training service revenue	10.6	10.5	1%	65.0	49.2	32%	75.6	59.7	27%
Maintenance revenue	102.4	94.5	8%	51.2	36.9	39%	153.6	131.4	17%
Total service revenue	113.0	105.0	8%	116.2	86.0	35%	229.2	191.1	20%
Total revenue	\$ 153.9	\$ 146.3	5%	\$ 164.4	\$ 120.3	37%	\$ 318.3	\$ 266.6	19%

**Revenue by Line of Business**

Revenue as a Percentage of Total Revenue	Three Months Ended	
	December 31, 2011	January 1, 2011
License	28%	28%
Consulting and training service	24%	23%
Maintenance	48%	49%
	100%	100%

Year over Year Percentage Changes in Revenue	Three months ended December 31, 2011 compared to three months ended January 1, 2011	
	As Reported	Constant Currency
License	18%	17%
Consulting and training service	27%	26%
Maintenance	17%	15%
Total	19%	18%

**License Revenue**

The \$13.6 million increase in overall license revenue in the first quarter of 2012 was due primarily to growth in direct Enterprise license revenue which increased \$12.9 million due to increased sales to our large commercial customers and revenue from MKS, which contributed \$4.7 million to Enterprise license revenue during the first quarter. Additionally, we continued to see strength in license revenue from small- and medium-size customers, with increases in both indirect Desktop and Enterprise license revenue. Enterprise license revenue results reflect an increase in revenue from sales of Windchill, which were 31% (\$7.1 million) higher in the first quarter of 2012 than in the first quarter of 2011.

Foreign currency exchange rate movements favorably impacted license revenue by \$0.5 million in the first quarter of 2012 compared to the first quarter of 2011.

**Consulting and Training Service Revenue**

Consulting and training services engagements typically result from sales of new licenses, particularly of our Enterprise solutions. In the first quarter of 2012, compared to the first quarter of 2011, consulting revenue, which is primarily related to Windchill implementations among our direct Enterprise customers, was up 28% (\$14.7 million) and training revenue, which typically represents about 15% of our total consulting and training services revenue, was up 16% (\$1.3 million). In addition, MKS and 4CS contributed \$5.6 million to Enterprise consulting and training service revenue in the first quarter. Excluding MKS and 4CS, consulting and training service revenue increased 17% (\$10.3 million) in the first quarter of 2012 compared to the first quarter of 2011.

Foreign currency exchange rate movements favorably impacted consulting and training services revenue by \$0.5 million in the first quarter of 2012 compared to the first quarter of 2011.

**Maintenance Revenue**

Maintenance revenue is comprised of contracts to maintain new and/or previously purchased software. We saw steady growth in maintenance revenue in 2011, continuing in the first quarter of 2012. Desktop maintenance revenue was up 8%, attributable in part to the launch of Creo in 2011, and Enterprise maintenance revenue was up 39%. MKS contributed \$7.7 million to Enterprise maintenance revenue in the first quarter of 2012. Excluding MKS and 4CS, Enterprise maintenance revenue increased 17% (\$6.2 million) in the first quarter of 2012 compared to the first quarter of 2011. Creo and Windchill seats under maintenance increased 8% and 22%, respectively, as of the end of the first quarter of 2012, compared to the end of the first quarter of 2011.

Foreign currency exchange rate movements favorably impacted maintenance revenue by \$2.3 million in the first quarter of 2012 compared to the first quarter of 2011.

**Revenue by Distribution Channel**

We derive most of our revenue from products and services sold directly by our sales force to end-user customers (Direct Revenue). We also sell products and services through third-party resellers and other strategic partners (Indirect Revenue). Our sales force focuses on large accounts, while our reseller channel provides a cost-effective means of covering the small- and medium-size business market. This enables our direct sales force to focus on larger sales opportunities and ensures greater coverage of all customer segments.

Our direct revenue typically comprises approximately 70% of our total revenue while our indirect revenue typically comprises approximately 30% of our total revenue. Our indirect sales have increased in part as a result of the release of Creo in June 2011 and in part due to improved economic conditions.

Revenue results by Distribution Channel can be found in the table *Revenue by Product Group and Distribution Channel* above.

**Revenue from Individual Customers**

We enter into customer contracts that may result in revenue being recognized over multiple reporting periods. Accordingly, revenue recognized in a current period may be attributable to contracts entered into during the current period or in prior periods. License and/or consulting and training service revenue of \$1 million or more recognized from individual customers in a single quarter during the fiscal year from contracts entered into during that quarter and/or a prior quarter is shown in the table below. The amount of revenue, particularly license revenue, attributable to large transactions, and the number of such transactions, may vary significantly from quarter to quarter based on customer purchasing decisions, the completion of large services engagements commenced in previous quarters and macroeconomic conditions. In the first quarter of 2012, we instituted changes to our internal customer reporting that resulted in differences in our previously reported customer metrics. The historical information in the table below has been restated to conform to the current customer definitions.

For the first quarters of 2012 and 2011, there were 24 (10 in the Americas, 9 in Europe and 5 in Asia) and 26 (9 in the Americas, 13 in Europe and 4 in Asia) of these customers, respectively, with average revenue recorded of \$2.9 million and \$2.2 million in the first quarter of 2012 and the first quarter of 2011, respectively.

The increase in license and consulting and training service revenue greater than \$1 million from individual customers in the first quarter of 2012 compared to the first quarter of 2011 reflects increased revenue from Enterprise licenses and Enterprise services.

	Three months ended	
	December 31, 2011	January 1, 2011
	(Dollar amounts in millions)	
License and/or consulting and training service revenue greater than \$1 million from individual customers in a quarter	\$ 68.8	\$ 58.1
% of total license and consulting and training service revenue	42%	43%
<i>Revenue by product group:</i>		
Desktop	\$ 12.4	\$ 11.9
Enterprise	\$ 56.4	\$ 46.2

**Revenue by Geographic Region**

	Three months ended		Percent Change	
	December 31, 2011	January 1, 2011	Actual	Constant Currency
(Dollar amounts in millions)				
<b>Revenue by region:</b>				
Americas	\$ 117.5	\$ 100.1	17%	17%
Europe	\$ 133.2	\$ 107.9	23%	22%
Pacific Rim	\$ 37.3	\$ 33.6	11%	11%
Japan	\$ 30.3	\$ 25.0	22%	13%
<b>Revenue by region as a % of total revenue:</b>				
Americas	37%	38%		
Europe	42%	40%		
Pacific Rim	12%	13%		
Japan	9%	9%		

*Americas*

The increase in revenue in the Americas in the first quarter of 2012 compared to the first quarter of 2011 consisted of an increase of 38% (\$7.6 million) in consulting and training service revenue, an increase of 18% (\$8.7 million) in maintenance revenue and an increase of 4% (\$1.1 million) in license revenue.

*Europe*

The increase in revenue in the first quarter of 2012 compared to the first quarter of 2011 consisted of an increase in license revenue of 30% (\$8.6 million), an increase in consulting and training service revenue of 29% (\$7.3 million) and an increase in maintenance revenue of 17% (\$9.4 million). The increase in license revenue reflects growth in license sales of Desktop and Enterprise products to large customers. Total Desktop and Enterprise license revenue increased 36% (\$5.7 million) and 22% (\$2.9 million) in the first quarter of 2012, respectively, compared to the first quarter of 2011.

Changes in foreign currency exchange rates, particularly the Euro, favorably impacted revenue in Europe by \$1.2 million in the first quarter of 2012 as compared to the first quarter of 2011.

*Pacific Rim*

The increase in revenue in the Pacific Rim in the first quarter of 2012, compared to the first quarter of 2011, was due primarily to an increase of 19% (\$2.5 million) in license revenue and an increase of 15% (\$1.4 million) in maintenance revenue. Revenue from China, which has historically represented 6% to 7% of our total revenue, decreased 1% in the first quarter of 2012 compared to the first quarter of 2011.

*Japan*

The increase in revenue in Japan in the first quarter of 2012, compared to the first quarter of 2011, included increases of 55% (\$1.4 million) in license revenue, 30% (\$1.3 million) in consulting and training service revenue and 15% (\$2.7 million) in maintenance revenue.

Changes in the Yen to U.S. Dollar exchange rate favorably impacted revenue in Japan by \$2.1 million in the first quarter of 2012 as compared to the first quarter of 2011.

**Costs and Expenses**

	Three Months Ended		Percent Change
	December 31, 2011	January 1, 2011	
	(Dollar amounts in millions)		
<b>Costs and expenses:</b>			
Cost of license revenue	\$ 7.7	\$ 6.0	29%
Cost of service revenue	90.6	80.1	13%
Sales and marketing	97.8	84.5	16%
Research and development	55.0	51.5	7%
General and administrative	29.6	23.5	26%
Amortization of acquired intangible assets	5.2	3.9	35%
Total costs and expenses	\$ 285.8	249.5	15% (1)
Total headcount at end of period	6,110	5,416	

(1) On a constant foreign currency basis, compared to the year-ago periods, total costs and expenses for the first quarter of 2012 increased 14%.

Costs and expenses in the first quarter of 2012, compared to the first quarter of 2011, increased primarily as a result of:

- higher cost of service in support of services revenue growth;
- investments in our direct sales force;
- an increase of approximately 380 employees in connection with our acquisition of MKS on May 31, 2011 and approximately 200 employees in connection with our acquisition of 4CS on September 2, 2011;
- a company-wide merit pay increase effective February 1, 2011 (approximately \$11 million on an annualized basis), which resulted in an increase in salary expense across all functional organizations; and
- acquisition-related costs (included in general and administrative) primarily associated with our acquisition of MKS.

Costs in the first quarter of 2011 included the following:

- a contract loss of approximately \$5 million recorded in the first quarter of 2011 related to estimated costs to be incurred in completing a services contract in excess of the corresponding revenue;
- higher sales and marketing expenses associated with events, including our Creo product launch in the first quarter of 2011.

*Cost of License Revenue*

	Three Months Ended		Percent Change
	December 31, 2011	January 1, 2011	
	(Dollar amounts in millions)		
Cost of license revenue	\$ 7.7	\$ 6.0	29%
% of total revenue	2%	2%	
% of total license revenue	9%	8%	

Our cost of license revenue consists of fixed and variable costs associated with reproducing and distributing software and documentation, as well as royalties paid to third parties for technology embedded in or licensed with our software products and amortization of intangible assets associated with acquired products. Cost of license revenue increased in the first quarter of 2012 due in part to amortization of purchased software, which was \$0.7 million higher in the first quarter of 2012 compared to the first quarter of 2011. Cost of license revenue as a percent of license revenue can vary depending on product mix sold and the effect of fixed and variable royalties and the level of amortization of acquired software intangible assets.

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*Cost of Service Revenue*

	Three Months Ended		Percent Change
	December 31, 2011	January 1, 2011	
	(Dollar amounts in millions)		
Cost of service revenue	\$ 90.6	\$ 80.1	13%
% of total revenue	28%	30%	
% of total service revenue	40%	42%	
Service headcount at end of period	1,956	1,552	26%

Our cost of service revenue includes costs such as salaries, benefits, and computer equipment and facilities for our training, customer support and consulting personnel; third-party subcontractor fees; and costs associated with the release of maintenance updates (including related royalty costs). Service margins can vary based on the product mix sold in the period. Margins on maintenance revenue are significantly higher than on consulting and training service revenue. Maintenance revenue comprised 67% and 69% of total service revenue in the first quarter of 2012 and 2011, respectively.

In the first quarter of 2012, compared to the first quarter of 2011, total compensation, benefit costs and travel expenses were 30% (\$14.3 million) higher primarily due to increased headcount. Additionally, the cost of third-party consulting services was \$1.4 million higher in the first quarter of 2012 compared to the first quarter of 2011, primarily due to the increase in consulting and training service revenue in the first quarter of 2012. Cost of service headcount at the end of the first quarter of 2012 includes approximately 210 employees added from MKS and 4CS.

In the first quarter of 2011, we made a strategic decision to enter into a contract with an important customer in the automotive industry, for which we expected our costs to exceed our revenue by approximately \$5 million. Cost of service revenue in the first quarter of 2011 included immediate recognition of this loss of approximately \$5 million.

*Sales and marketing*

	Three Months Ended		Percent Change
	December 31, 2011	January 1, 2011	
	(Dollar amounts in millions)		
Sales and marketing	\$ 97.8	\$ 84.5	16%
% of total revenue	31%	32%	
Sales and marketing headcount at end of period	1,569	1,390	13%

Our sales and marketing expenses primarily include salaries and benefits, sales commissions, advertising and marketing programs, travel and facility costs. Our compensation, benefit costs and travel expenses were higher by an aggregate of \$13.7 million in the first quarter of 2012 compared to the first quarter of 2011 due to higher headcount as a result of investments we have made in our direct sales force in support of revenue growth opportunities. Sales and marketing headcount at the end of first quarter of 2012 included approximately 130 employees added from MKS and 4CS. Sales meetings and marketing events were higher by approximately \$2.0 million in the first quarter of 2011 compared to the first quarter of 2012 primarily due to the Creo product launch.

*Research and Development*

	Three Months Ended		Percent Change
	December 31, 2011	January 1, 2011	
	(Dollar amounts in millions)		
Research and development	\$ 55.0	\$ 51.5	7%
% of total revenue	17%	19%	
Research and development headcount at end of period	1,985	1,911	4%

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Our research and development expenses consist principally of salaries and benefits, costs of computer equipment and facility expenses. Major research and development activities include developing new releases and updates of our software that enhance functionality and developing new products or features. Total compensation, benefit costs and travel expenses were higher in the first quarter of 2012 compared to the first quarter of 2011 by an aggregate of \$4.0 million. Research and development headcount at the end of the first quarter of 2012 included approximately 170 employees added from MKS and 4CS.

*General and Administrative*

	Three Months Ended		Percent Change
	December 31, 2011	January 1, 2011	
	(Dollar amounts in millions)		
General and administrative	\$ 29.6	\$ 23.5	26%
% of total revenue	9%	9%	
General and administrative headcount at end of period	587	550	7%

Our general and administrative expenses include the costs of our corporate, finance, information technology, human resources, legal and administrative functions, as well as acquisition-related charges, bad debt expense and outside professional services, including accounting and legal fees. Acquisition-related costs, primarily related to severance and professional fees associated with the integration of MKS and 4CS, were \$2.1 million in the first quarter of 2012. Total compensation, benefit costs and travel costs were higher in the first quarter of 2012 by \$2.3 million. General and administrative headcount at the end of first quarter of 2012 included approximately 30 employees added from MKS and 4CS.

*Amortization of Acquired Intangible Assets*

Amortization of acquired intangible assets reflects the amortization of acquired non-product related intangible assets, primarily customer and trademark-related intangible assets, recorded in connection with completed acquisitions. The increase in amortization of acquired intangible assets in the first quarter of 2012 was primarily due to our acquisition of MKS.

*Interest and Other Income (Expense), net*

	Three months ended	
	December 31, 2011	January 1, 2011
	(in millions)	
Interest income	\$ 0.8	\$ 0.9
Interest expense	(1.2)	(0.3)
Other income (expense), net	(2.2)	(2.5)
Total interest and other (expense)income , net	\$ (2.6)	\$ (1.9)

Interest and other income (expense), net includes interest income, interest expense, costs of hedging contracts, certain realized and unrealized foreign currency transaction gains or losses and exchange gains or losses resulting from the required period-end currency remeasurement of the financial statements of our subsidiaries that use the U.S. Dollar as their functional currency. A large portion of our revenue and expenses is transacted in foreign currencies. To reduce our exposure to fluctuations in foreign exchange rates, we engage in hedging transactions involving the use of foreign currency forward contracts, primarily in the Euro and Canadian Dollar. The increase in interest expense in the first quarter of 2012 is due to amounts outstanding under our revolving credit facility. We had \$200 million outstanding at December 31, 2011 and September 30, 2011 and no amounts outstanding in the first quarter of 2011.

*Income Taxes*

	Three months ended	
	December 31, 2011	January 1, 2011
	(Dollar amounts in millions)	
Pre-tax income	\$ 29.9	\$ 15.2
Tax provision	7.7	2.0
Effective income tax rate	26%	13%

In the first quarter 2012, our effective tax rate was lower than the 35% statutory federal income tax rate due primarily to our corporate structure in which our foreign taxes are at a net effective tax rate lower than the U.S. rate. Our provision includes the expiration on December 31, 2011 of the research and development (R&D) credit in the U.S. and a discrete non-cash charge of \$1.5 million related to the impact of a Japanese legislative change, enacted in the first quarter, on our Japan entity's deferred tax assets. Additionally, we expect to make a research and development cost sharing prepayment by a foreign subsidiary to the U.S. of the same level as the prior year. If such prepayment is not ultimately paid within the fiscal year, the effective tax rate would be favorably impacted by up to \$7.5 million. In the first quarter of 2011, our effective tax rate was lower than the 35% statutory federal income tax rate due primarily to our corporate tax structure in which our foreign taxes are at a net effective tax rate lower than the U.S. rate and a \$1.8 million tax benefit related to research and development (R&D) triggered by a retroactive extension of the R&D tax credit enacted in the first quarter of 2011.

We have net deferred tax assets (\$121.9 million as of September 30, 2011) primarily relating to our U.S. operations. We have concluded, based on the weight of available evidence, that our net deferred tax assets are more likely than not to be realized in the future. In arriving at this conclusion, we evaluated all available evidence, including our cumulative profitability on a pre-tax basis for the last three years (adjusted for permanent differences) which includes the results of taking certain tax planning actions. We have taken and will continue to take measures to improve core earnings in the U.S., and we expect U.S. earnings to continue to improve in the near term. If the U.S. results do not improve as anticipated, however, a valuation allowance against the deferred tax assets may be required. We will continue to reassess our valuation allowance requirements each financial reporting period.

In the normal course of business, PTC and its subsidiaries are examined by various taxing authorities, including the Internal Revenue Service (IRS) in the United States. We regularly assess the likelihood of additional assessments by tax authorities and provide for these matters as appropriate. We are currently under audit by tax authorities in several foreign jurisdictions. Audits by tax authorities typically involve examination of the deductibility of certain permanent items, limitations on net operating losses and tax credits. Although we believe our tax estimates are appropriate, the final determination of tax audits and any related litigation could result in material changes in our estimates.

Our future effective income tax rate may be materially impacted by the amount of income taxes associated with our foreign earnings, which are taxed at rates different from the U.S. federal statutory income tax rate, as well as the timing and extent of the realization of deferred tax assets and changes in the tax law. Further, our tax rate may fluctuate within a fiscal year, including from quarter to quarter, due to items arising from discrete events, including settlements of tax audits, and assessments, the resolution or identification of tax position uncertainties, expiration of statute of limitations and acquisitions of other companies.

***Income and Margins; Earnings per Share***

As shown in the table below, our operating income and operating margins in the first quarter of 2012 increased compared to the first quarter of 2011, primarily due to higher revenue and improved operating margins described in *Revenue* and *Costs and Expenses* above.

The non-GAAP measures presented in the discussion of our results of operations and the respective most directly comparable GAAP measures are:

- non-GAAP revenue—GAAP revenue
- non-GAAP operating income—GAAP operating income
- non-GAAP net income—GAAP net income
- non-GAAP operating margin—GAAP operating margin
- non-GAAP diluted earnings per share—GAAP diluted earnings per share

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The non-GAAP measures exclude a fair value adjustment related to MKS deferred maintenance revenue, stock-based compensation expense, amortization of acquired intangible assets expense, acquisition-related charges, one-time charges included in non-operating other income (expense), net and the related tax effects of the preceding items, and any one-time tax items. These expenses and charges are normally included in the comparable measures calculated and presented in accordance with GAAP. Our management excludes these revenue and cost items when evaluating our ongoing performance and/or predicting our earnings trends, and therefore exclude them when presenting non-GAAP financial measures. Management uses, and investors should consider, non-GAAP measures in conjunction with our GAAP results.

*Fair value of acquired MKS deferred maintenance revenue* is a purchase accounting adjustment recorded to reduce acquired deferred maintenance revenue to the fair value of the remaining obligation.

*Stock-based compensation expense* is a non-cash expense relating to stock-based awards issued to executive officers, employees and outside directors, primarily consisting of restricted stock and restricted stock units.

*Amortization of acquired intangible assets expense* is a non-cash expense that is impacted by the timing and magnitude of our acquisitions.

*Acquisition-related charges* are costs that are included in general and administrative expenses and include direct costs of acquisitions and expenses related to acquisition integration activities, including transaction fees, due diligence costs, severance, and professional fees, including legal and accounting costs related to the acquisition and integration of the acquisition. These costs are not considered part of our normal operations as the occurrence and amount will vary depending on the timing and size of acquisitions and the level of integration activity undertaken.

We use these non-GAAP measures, and we believe that they assist our investors, to make period-to-period comparisons of our operational performance because they provide a view of our operating results without items that are not, in our view, indicative of our core operating results. We believe that these non-GAAP measures help illustrate underlying trends in our business, and we use the measures to establish budgets and operational goals (communicated internally and externally) for managing our business and evaluating our performance. We believe that providing non-GAAP measures affords investors a view of our operating results that may be more easily compared to the results of peer companies. In addition, compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

The items excluded from the non-GAAP measures often have a material impact on our financial results and such items often recur. Accordingly, the non-GAAP measures included in this Quarterly Report should be considered in addition to, and not as a substitute for or superior to, the comparable measures prepared in accordance with GAAP.

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The following tables reconcile each of these non-GAAP measures to its most closely comparable GAAP measure on our financial statements.

	Three Months Ended	
	December 31, 2011	January 1, 2011
(Dollar amounts in millions)		
GAAP revenue	\$ 318.3	\$ 266.6
Fair value of acquired MKS deferred maintenance	1.5	—
Non-GAAP revenue	<u>\$ 319.8</u>	<u>\$ 266.6</u>
GAAP operating income	\$ 32.5	\$ 17.1
Fair value of acquired MKS deferred maintenance revenue	1.5	—
Stock-based compensation	13.4	11.0
Amortization of acquired intangible assets	9.3	7.2
Acquisition-related charges included in general and administrative expenses	2.1	—
Non-GAAP operating income	<u>\$ 58.8</u>	<u>\$ 35.3</u>
GAAP net income	\$ 22.1	\$ 13.3
Fair value of acquired MKS deferred maintenance	1.5	—
Stock-based compensation	13.4	11.0
Amortization of acquired intangible assets	9.3	7.2
Acquisition-related charges included in general and administrative expenses	2.1	—
Non-operating foreign currency transaction loss <sup>(1)</sup>	0.8	0.7
Income tax adjustments <sup>(2)</sup>	(6.7)	(5.8)
Non-GAAP net income	<u>\$ 42.5</u>	<u>\$ 26.4</u>
GAAP diluted earnings per share	\$ 0.18	\$ 0.11
Stock-based compensation	0.11	0.09
Amortization of acquired intangible assets	0.08	0.06
Acquisition-related charges	0.02	—
Income tax adjustments	(0.06)	(0.05)
All other items identified above	0.02	0.01
Non-GAAP diluted earnings per share	<u>\$ 0.35</u>	<u>\$ 0.22</u>

Operating margin impact of non-GAAP adjustments:

	Three Months Ended	
	December 31, 2011	January 1, 2011
GAAP operating margin	10.2%	6.4%
Fair value of deferred maintenance revenue	0.5%	—%
Stock-based compensation	4.2%	4.2%
Amortization of acquired intangibles	2.9%	2.7%
Acquisition-related charges	0.6%	—%
Non-GAAP operating margin	<u>18.4%</u>	<u>13.3%</u>

- (1) In the first quarter of 2012, we recorded \$0.8 million of foreign currency transaction losses related to MKS legal entity mergers completed during the quarter. In the first quarter of 2011, we recorded \$0.7 million of foreign currency losses

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related to a previously announced litigation settlement in Japan.

- (2) *Income tax adjustments* reflect the tax effects of non-GAAP adjustments which are calculated by applying the applicable tax rate by jurisdiction to the non-GAAP adjustments listed above, as well as any atypical tax items. In the first quarter of 2012, income tax adjustments include a one-time non-cash charge of \$1.4 million related to the impact of a reduction in the statutory tax rate in Japan on deferred tax assets from a litigation settlement.

### Liquidity and Capital Resources

	December 31, 2011	January 1, 2011
	(in thousands)	
Cash and cash equivalents	\$ 187,351	\$ 182,915
Amounts below are for the three months ended:		
Cash provided (used) by operating activities	\$ 36,485	\$ (48,038)
Cash used by investing activities	(8,450)	(5,412)
Cash used by financing activities	(5,315)	(4,674)

#### *Cash and cash equivalents*

We invest our cash with highly rated financial institutions and in diversified domestic and international money market mutual funds. Cash and cash equivalents include highly liquid investments with original maturities of three months or less. At December 31, 2011 cash and cash equivalents totaled \$187.4 million, up from \$167.9 million at September 30, 2011 due primarily to \$36.5 million of cash provided by operating activities in the first three months of 2012.

#### *Cash provided (used) by operating activities*

Cash provided by operating activities was \$36.5 million in the first three months of 2012, compared to \$(48.0) million of cash used by operating activities in the first three months of 2011. The first quarter of 2011 included the resolution, as previously disclosed, of a litigation matter, which reduced our cash balance by approximately \$48 million during the quarter, including \$52.1 million paid to settle the matter. Excluding the impact of the litigation settlement, cash provided by operations improved due primarily to increased profitability (profit before tax for the first quarter of 2012 and 2011 was \$29.9 million and \$15.2 million, respectively) and collections on accounts receivables, which had a \$14 million favorable impact in the first quarter of 2012 as compared to the first quarter of 2011. Accounts receivable days sales outstanding is 63 days at the end of the first quarter of 2012 compared to 62 days as of September 30, 2011 and 60 days at the end of the first quarter of 2011. In the first quarter of 2012 and 2011, cash used by operating activities related to the change in accounts payable and accrued expenses and accrued compensation and benefits was \$32.9 million and \$29.2 million, respectively, primarily related to the payment of year-end incentive compensation accruals.

#### *Cash used by investing activities*

	Three months ended	
	December 31, 2011	January 1, 2011
	(in thousands)	
Cash used by investing activities included the following:		
Acquisitions of businesses, net of cash acquired	\$ (880)	\$ —
Additions to property and equipment	(7,570)	(5,412)
	\$ (8,450)	\$ (5,412)

Our expenditures for property and equipment consist primarily of computer equipment, software, office equipment and facility improvements. In the first quarter of 2012 we paid \$0.9 million of contingent purchase price related to our acquisition of 4CS and we expect to pay the remaining contingent purchase price of \$0.3 million in the second quarter of 2012.

**Cash used by financing activities**

	Three months ended	
	December 31, 2011	January 1, 2011
	(in thousands)	
Cash used by financing activities included the following:		
Borrowings under revolving credit facility	\$ 40,000	\$ —
Repayments of borrowings under revolving credit facility	(40,000)	—
Payments of withholding taxes in connection with vesting of stock-based awards	(12,661)	(17,168)
Proceeds from issuance of common stock	7,196	12,232
Excess tax benefits from stock-based awards	150	262
	<u>\$ (5,315)</u>	<u>\$ (4,674)</u>

The decrease in proceeds from issuance of common stock was due to lower stock option exercises in the first quarter of 2012 (0.5 million options) compared to the first quarter of 2011 (0.9 million options). As of December 31, 2011, we had approximately 2.4 million stock options outstanding. These options expire on various dates through 2017, including 0.6 million in 2012, 0.8 million in 2013 and 0.9 million in 2014. We expect substantially all of the options, including those held by our executives, to be exercised prior to their respective expiration dates.

**Credit Facility**

We have a revolving credit facility with a bank syndicate, under which we may borrow funds up to \$300 million (with an accordion feature that allows us to borrow up to an additional \$150 million if the existing or additional lenders agree), repay the same in whole or in part, and re-borrow at any time through September 30, 2016, when all amounts outstanding will be due and payable in full.

In 2011, in connection with our acquisition of MKS, we borrowed \$250 million under the credit facility, \$50 million of which we repaid in the fourth quarter of 2011. As of December 31, 2011 and September 30, 2011, we had \$200 million outstanding under the revolving credit facility. During the first quarter of 2011, we borrowed an additional \$40 million under the revolving credit facility for short-term cash requirements, including the payment of fiscal 2011 incentive compensation, which we repaid by quarter-end.

The credit facility limits PTC's and its subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; pay dividends (other than to PTC) and make other distributions; make investments and enter into joint ventures; dispose of assets; and engage in transactions with affiliates, except on an arms-length basis. Under the credit facility, PTC and its material domestic subsidiaries may not invest cash or property in, or loan to, PTC's foreign subsidiaries in aggregate amounts exceeding \$50 million for any purpose and an additional \$75 million for acquisitions of businesses. In addition, under the credit facility, PTC and its subsidiaries must maintain the following financial ratios:

a leverage ratio, defined as consolidated funded indebtedness to consolidated trailing four quarters EBITDA, of no greater than 2.50 to 1.00 at any time; and

a fixed charge coverage ratio, defined as the ratio of consolidated trailing four quarters EBITDA less consolidated capital expenditures to consolidated fixed charges, of no less than 1.25 to 1.00 at any time.

As of December 31, 2011, our leverage ratio was 0.78 to 1.00 and our fixed charge coverage ratio was 3.52 to 1.00. We were in compliance with all financial and operating covenants of the credit facility as of December 31, 2011.

For a description of additional terms and conditions of the credit facility, including limitations on our ability to undertake certain actions, see Note 11. Long Term Debt in the Notes to Consolidated Financial Statements of this Form 10-Q.

**Share Repurchases**

Our Board of Directors has periodically authorized us to repurchase shares of our common stock. Under our current authorization, we are authorized to repurchase up to \$100 million worth of shares with cash from operations in the period October 1, 2011 through September 30, 2012. We did not repurchase any shares in the first quarter of either 2012 or 2011. All shares of our common stock repurchased are automatically restored to the status of authorized and unissued. Future repurchases of shares will reduce our cash balances.

### ***Expectations for 2012***

We believe that existing cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our working capital (including the estimated second quarter restructuring charge of \$20 million) and capital expenditure requirements through at least the next twelve months and to meet our known long-term capital requirements. Capital expenditures in 2012 are currently anticipated to be approximately \$31 million. In addition, we expect to generate sufficient cash flow from operations in 2012 to repurchase \$55 million worth of shares of our common stock and to repay amounts outstanding under our revolving credit facility to achieve a balance of \$100 million outstanding as of September 30, 2012.

We have evaluated, and expect to continue to evaluate, possible strategic transactions on an ongoing basis and at any given time may be engaged in discussions or negotiations with respect to possible strategic transactions. Our expected uses of cash could change, our cash position could be reduced and we may incur additional debt obligations to the extent we complete any significant acquisitions.

At December 31, 2011, we had cash and cash equivalents of \$62.1 million in Europe, \$49.6 million in the United States, \$62.3 million in the Pacific Rim (including India), \$6.7 million in Japan and \$6.7 million in other non-U.S. countries. As of December 31 and September 30, 2011, we had an outstanding intercompany loan receivable of \$334.5 million owed to the U.S. from our top tier foreign subsidiary, primarily resulting from legal entity reorganizations completed in 2010 and 2011 in support of tax and cash planning. This amount can be repaid with cash generated by our foreign subsidiaries and repatriated to the U.S. without future tax cost.

### **Critical Accounting Policies and Estimates**

The financial information included in Item 1 reflects no material changes in our critical accounting policies and estimates as set forth under the heading Critical Accounting Policies and Estimates in Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2011 Annual Report on Form 10-K. We did not make any changes to these policies or to these estimates during the quarter ended December 31, 2011.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our market risk exposure as described in Item 7A: *Quantitative and Qualitative Disclosures about Market Risk* of our 2011 Annual Report on Form 10-K.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of Effectiveness of Disclosure Controls and Procedures***

Our management maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), as appropriate, to allow for timely decisions regarding required disclosure.

We evaluated, under the supervision and with the participation of management, including our principal executive and principal financial officers, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2011.

#### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims that arise in the ordinary course of business. We currently believe that resolving these matters will not have a material adverse impact on our financial condition, results of operations or cash flows. However, the results of legal proceedings cannot be predicted with certainty. Should any of these legal matters be resolved against us, the operating results for a particular reporting period could be adversely affected.

### ITEM 1A. RISK FACTORS

In addition to other information set forth in this report, you should carefully consider the factors described in Part I. Item 1A. Risk Factors in our 2011 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2011 Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### ITEM 6. EXHIBITS

- 3.1(a) Restated Articles of Organization of Parametric Technology Corporation adopted February 4, 1993 (filed as Exhibit 3.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 1996 (File No. 0-18059) and incorporated herein by reference).
- 3.1(b) Articles of Amendment to Restated Articles of Organization adopted February 9, 1996 (filed as Exhibit 4.1(b) to our Registration Statement on Form S-8 (Registration No. 333-01297) and incorporated herein by reference).
- 3.1(c) Articles of Amendment to Restated Articles of Organization adopted February 13, 1997 (filed as Exhibit 4.1(b) to our Registration Statement on Form S-8 (Registration No. 333-22169) and incorporated herein by reference).
- 3.1(d) Articles of Amendment to Restated Articles of Organization adopted February 10, 2000 (filed as Exhibit 3.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000 (File No. 0-18059) and incorporated herein by reference).
- 3.1(e) Certificate of Vote of Directors establishing Series A Junior Participating Preferred Stock (filed as Exhibit 3.1(e) to our Annual Report on Form 10-K for the fiscal year ended September 30, 2000 (File No. 0-18059) and incorporated herein by reference).
- 3.1(f) Articles of Amendment to Restated Articles of Organization adopted February 28, 2006 (filed as Exhibit 3.1(f) to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006 (File No. 0-18059) and incorporated herein by reference).
- 3.2 By-Laws, as amended and restated, of Parametric Technology Corporation (filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2009 (File No. 0-18059) and incorporated herein by reference).
- 10.1\* Employment Agreement dated as of November 10, 2011, by and between Parametric Technology Corporation and Martha Durcan.
- 31.1 Certification of the Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a).
- 31.2 Certification of the Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a).
- 32\*\* Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.
- 101\*\*\* The following materials from Parametric Technology Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of December 31, 2011 and September 30, 2011; (ii) Condensed Consolidated Statements of Operations for the three months ended December 31, 2011 and January 1, 2011; (iii) Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2011 and January 1, 2011; (iv) Condensed Consolidated Statements of Comprehensive Income for the three months ended December 31, 2011 and January 1, 2011; and (v) Notes to Condensed Consolidated Financial Statements.

\* Indicates a management contract or compensatory plan or arrangement in which an executive officer or director of Parametric Technology Corporation participates.

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- \*\* Indicates that the exhibit is being furnished with this report and is not filed as a part of it.
- \*\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.



**EXHIBIT H**  
**Employment Agreement**

This Employment Agreement (“Agreement”) is made as of the effective date set forth below by and between Parametric Technology Corporation (the “Company”), 140 Kendrick Street, Needham, MA 02494 and Martha Durcan (the “Employee”).

**Background**

Whereas, the Employee holds a senior level management position with the Company;

Whereas, the Company desires to provide an incentive for the Employee to remain with the Company by providing certain benefits in the event that there should be a termination of the Employee's employment without cause or in connection with a change in control of the Company;

Now, therefore, the Company and the Employee agree as follows:

**1. Definitions**

“Cause” shall mean termination of the Employee's employment due to (A) the Employee's willful and continued failure to substantially perform Employee's duties with the Company (other than any such failure resulting from Employee's incapacity due to physical or mental illness), provided that the Company has delivered a written demand for performance to the Employee specifically identifying the manner in which the Company believes that the Employee has not substantially performed her duties and the Employee does not cure such failure within thirty (30) days following such written demand, or (B) the Employee's willful engagement in conduct that is demonstrably and materially injurious to the Company. For purposes of this definition, no act or failure to act on the Employee's part shall be deemed to be “willful” unless done or omitted to be done by the Employee not in good faith and without reasonable belief that her action or omission was in the best interests of the Company.

“Change in Control” shall mean the occurrence of any of the following events:

- (i) any person (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock in the Company) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities (other than as a result of acquisitions of such securities from the Company);
  - (ii) individuals who, as of the date hereof, constitute the Board of Directors of the Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company) shall be, for purposes of this Agreement, considered to be a member of the Incumbent Board;
  - (iii) the consummation of a merger, share exchange or consolidation of the Company or any subsidiary of the Company with any other corporation (each, a “Business Combination”), other than (i) a Business Combination that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of another entity) beneficial ownership, directly or indirectly, of a majority of the combined voting power of the Company or the surviving entity (including any person that, as a result of such transaction, owns all or substantially all of the Company's assets either directly or through one or more subsidiaries) outstanding immediately after such Business Combination or (ii) a merger, share exchange or consolidation effected to implement a recapitalization of the Company (or similar transaction) following which no person is or becomes the beneficial owner of 50% or more of the combined voting power of the Company's then outstanding securities; or
  - (iv) the stockholders of the Company approve (A) a plan of complete liquidation of the Company or (B) an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets but excluding a sale or spin-off of a product line, business unit or line of business of the Company if the remaining business is significant;
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and, for purposes of this definition of "Change in Control," "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, and "beneficial owner" shall have the same meaning as when used in Rule 13d-3 under that Act.

"Change in Control Termination" shall mean: (A) termination of the Employee's employment by the Company other than for Cause or as a result of Employee's disability during the period from the date of a Change in Control through the first anniversary thereof, and (B) resignation by the Employee due to a Change of Status during the period from the date of a Change in Control through the first anniversary thereof.

"Change of Status" shall mean the occurrence, without the Employee's written consent, of any of the following circumstances (provided that the Employee shall have given the Company written notice describing such event or circumstance within ninety (90) days of its initial existence and the matter shall not have been fully remedied by the Company within thirty (30) days after receipt of such notice): (i) any reduction in annual base salary and target incentives, including target bonus and/or target commissions, in the aggregate by more than ten percent (other than as part of a plan applicable to employees generally); (ii) any reduction in employee benefits (other than as part of a plan applicable to employees generally); (iii) any reassignment of the Employee to a position that involves a materially different area of substantive expertise; (iv) the failure by the Company to pay to the Employee any portion of his or her compensation within ninety (90) days after such compensation is due; or (v) the Company's requiring the Employee to relocate to and work from a Company office, that is more than thirty-five (35) miles from the Employee's then principal work location (which principal work location may be a home office if the Employee works primarily from a home office at the time of the Change in Control), except for required travel on the Company's business to an extent substantially consistent with Employee's business travel obligations immediately before the date of the Change in Control.

**1. Termination of Employment**

If the Company terminates Employee's employment without Cause, other than a termination constituting a Change in Control Termination or as a result of Employee's disability, the Company shall pay to the Employee separation pay in an amount equal to (i) nine (9) months of the Employee's base salary and (ii) a COBRA Allowance in the amount and in the manner described in Section 4(c) below, provided that the Employee executes and delivers to the Company a Separation Agreement and General Release in a form substantially in the form attached hereto as Exhibit A within thirty (30) days of the last day of Employee's employment. The Company shall pay the separation pay to the Employee in one lump sum on or before the later of (i) thirty (30) days following termination of the Employee's employment and (ii) the expiration of any revocation period with respect to the Separation Agreement and General Release.

**2. Effect of Change in Control on Certain Compensation**

Effective upon a Change in Control that occurs during the Employee's employment:

(a) the Employee shall be entitled to payment of a pro-rata portion of any quarterly or annual cash incentive award for which the Employee is eligible for the fiscal year in which the Change in Control occurs, excluding sales commission plans ("Cash Incentive"), based on the Employee's target Cash Incentive for such period and the percentage of the period completed through the date of the Change in Control, for the purposes of which any performance criteria applicable to such award shall be deemed to have been met in full, which payment shall be made in one lump sum within thirty (30) days of the date of the Change in Control and from which any payments previously made with respect to such Cash Incentive shall be deducted; and

(b) unless otherwise accelerated by the terms of or in connection with the Change in Control, the vesting schedule applicable to any equity awards granted to the Employee as an incentive bonus under the Company's Management Incentive Plan or under similar short-term incentive plans (collectively, "Bonus Equity") shall be amended automatically so that a pro-rata portion of any such Bonus Equity equal to the percentage of the respective fiscal year completed through the date of the Change in Control shall thereupon be vested and subject to no further restrictions, and the portion not so vested shall thereupon automatically be cancelled and forfeited to the Company.

**3. Change in Control Termination Benefits**

If there shall be a Change in Control Termination, the following subsections (a), (b) and (c) shall apply:

(a) Equity Acceleration

Unless otherwise accelerated by the terms of or in connection with the Change in Control or the terms of any agreement governing such equity specifically,

(i) all outstanding stock options, stock appreciation rights, restricted stock units and other equity awards issued under any stock or equity incentive plan of the Company and held by the Employee shall immediately

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become vested and exercisable in full; and

(ii) all restrictions applicable to restricted stock issued under any stock or equity incentive plan of the Company and held by the Employee shall immediately lapse.

(b) Separation Pay

The Company shall pay to the Employee separation pay in an amount equal to nine (9) months of the higher of the Employee's base salary in effect at the time of the Change in Control or in effect at the time of the Change in Control Termination, provided that the Employee executes and delivers to the Company a Separation Agreement and General Release in a form substantially in the form attached hereto as Exhibit A within thirty (30) days of the Change in Control Termination. The Company shall pay the separation pay to the Employee in one lump sum on or before the later of (i) thirty (30) days following termination of the Employee's employment and (ii) the expiration of any revocation period with respect to the Separation Agreement and General Release. Payment under this Section 4(b) shall be exclusive of payment under Section 2.

(c) Benefits

The Company shall pay a COBRA Allowance covering nine (9) months of COBRA premiums for employees under the age of 60 at the date of the Change in Control Termination and eighteen (18) months of COBRA premiums for employees who are age 60 or older at the date of the Change in Control Termination, in each case covering premiums for eligible medical, dental and vision benefit plans in which the Employee participates as of the date of the Change in Control Termination, provided that the Employee executes and delivers to the Company the Separation Agreement and General Release within thirty (30) days of the date of the Change in Control Termination. For the purposes hereof, "COBRA Allowance" means an amount which, after applicable tax and FICA withholdings, equals the monthly premium to maintain the Employee's coverage under the applicable benefit plan, calculated using the premium in effect immediately prior to the date of the Change in Control Termination. The Company shall pay the COBRA Allowance in one lump sum on or before the later of (i) thirty (30) days following termination of the Employee's employment and (ii) the expiration of any revocation period with respect to the Separation Agreement and General Release.

#### **5. Certain Payments to Specified Employees**

Notwithstanding anything to the contrary in this Agreement, if the Employee is a "specified employee" within the meaning of Section 409A(a)(2)(B) (i) of the U.S. Internal Revenue Code of 1986 (the "Code") at the time of the Employee's separation from service with the Company, no payment or benefit payable or provided to the Employee pursuant to this Agreement that constitutes an item of deferred compensation under Code Section 409A and becomes payable by reason of the Employee's termination of employment with the Company will be paid or provided to the Employee prior to the earlier of (i) the expiration of the six (6) month period following the date of the Employee's "separation from service" (as such term is defined by Code Section 409A and the regulations promulgated thereunder), or (ii) the date of the Employee's death, but only to the extent such delayed commencement is otherwise required in order to avoid a prohibited distribution under Code Section 409A(a)(2). The payments and benefits to which the Employee would otherwise be entitled during the first six (6) months following her separation from service shall be accumulated and paid or provided, as applicable, in a lump sum, on the date that is six (6) months and one day following the Employee's separation from service (or if such date does not fall on a business day of the Company, the next following business day) and any remaining payments or benefits will be paid in accordance with the normal payment dates specified for them herein.

#### **6. No Change in Employment Status**

Subject only to the provisions of Sections 2, 3 and 4 above, Employee's employment is and shall continue to be at-will, as defined under applicable law, and may be terminated by either party for any reason and at any time during the term of this Agreement or thereafter.

#### **7. Term**

This Agreement shall commence on the Effective Date set forth below and continue in effect until the earlier of (a) termination of the Employee's employment for any reason, whether by the Company with or without cause, or by the Employee due to resignation or otherwise, in each case provided that a Change in Control shall not have occurred at the time of such termination; and (b) September 30, 2012. Unless earlier terminated, this Agreement shall automatically renew on September 30, 2012 and annually thereafter for additional twelve-month terms unless either party provides written notice to the other party of non-renewal at least ninety (90) days prior to the expiration of the then current term. If a Change in Control occurs while this Agreement is in effect, the term of this Agreement shall automatically be extended to the one year anniversary of the Change in Control. Except as otherwise expressly set forth in this Agreement, upon the termination of this Agreement, the respective rights and obligations of the parties shall survive to the extent necessary to carry out the intentions of the parties as embodied herein.

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**8. Choice of Law**

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, except any such laws that would render such choice of law ineffective.

Effective as of 10 November, 2011.

**Parametric Technology Corporation EMPLOYEE**

By: /s/ Barry Cohen

Signature: /s/ Martha Durcan

Title: EVP, Strategy

Print Name: Martha Durcan

## CERTIFICATION

I, James E. Heppelmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parametric Technology Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2012

/S/ JAMES E. HEPPELMANN  

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**James E. Heppelmann**  
*President and Chief Executive Officer*

## CERTIFICATION

I, Jeffrey D. Glidden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parametric Technology Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2012

/S/ JEFFREY D. GLIDDEN

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**Jeffrey D. Glidden**

***Executive Vice President and Chief Financial Officer***

**Certification of Periodic Financial Report****Pursuant to 18 U.S.C. Section 1350**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Parametric Technology Corporation (the "Company") certifies that, to his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 8, 2012

/S/ JAMES E. HEPPELMANN

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**James E. Heppelmann**

*President and Chief Executive Officer*

Date: February 8, 2012

/S/ JEFFREY D. GLIDDEN

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**Jeffrey D. Glidden**

*Executive Vice President and Chief Financial Officer*

