CONCORD COMMUNICATIONS INC
Form 10-Q
May 10, 2005

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

FORM 10-Q

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

For the quarterly period ended March 31, 2005.

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________to _________

Commission File Number: 0-23067

CONCORD COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2710876**
(State of incorporation)	(IRS Employer Identification Number)

600 Nickerson Road
Marlborough, Massachusetts 01752
(508) 460-4646
(Address and telephone of principal executive offices)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES þ NO o

18,854,398 shares of the registrant s common stock were outstanding as of May 5, 2005.

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CONCORD COMMUNICATIONS, INC.

FORM 10-Q, March 31, 2005

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONCORD COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except per share and share data)

	March 31, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 11,137	$ 15,816
Marketable securities	57,763	143,639
Restricted cash	591	66
Accounts receivable, net of allowance of $1,258 and $423 at March 31, 2005 and December 31, 2004, respectively	23,333	24,183
Deferred tax assets, net	3,147	1,763
Prepaid expenses and other current assets	8,593	8,170
Total current assets	104,564	193,637
Equipment and improvements, net	10,365	6,226
Goodwill	88,123	6,225
Other intangible assets, net	22,891	2,191
Deferred tax assets, net	11,795	12,211
Unamortized debt issuance costs and other long-term assets	2,803	3,001
Total assets	$ 240,541	$ 223,491
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 4,715	$ 6,334
Accrued expenses	19,061	12,171
Deferred revenue	42,187	27,207
Total current liabilities	65,963	45,712
Convertible senior notes	86,250	86,250
Other long term liabilities	560	
Total liabilities	152,773	131,962
Commitments and Contingencies (Note 4)		
Stockholders Equity:		
Common stock, $0.01 par value:		
Authorized - 50,000,000 shares issued and outstanding 18,698,636 and 18,449,964 shares at March 31, 2005 and December 31, 2004, respectively	187	184
Additional paid-in capital	119,453	117,113
Deferred compensation	(1,939)	

Accumulated other comprehensive loss	(802)	(427)
Accumulated deficit	(29,131)	(25,341)
Total stockholders equity	87,768	91,529
Total liabilities and stockholders equity	$ 240,541	$ 223,491

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

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CONCORD COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share and share data)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Revenues:		
License revenues	$ 11,570	$ 10,350
Service revenues	17,541	13,495
Total revenues	29,111	23,845
Costs of Revenues:		
Cost of license revenues	1,674	822
Cost of service revenues	5,077	3,949
Total cost of revenues	6,751	4,771
Gross profit	22,360	19,074
Operating Expenses:		
Research and development	7,162	5,789
Sales and marketing	14,021	11,516
General and administrative	4,183	2,643
Acquisition related charges	100	
Acquired in-process research and development	1,400	
Total operating expenses	26,866	19,948
Operating loss	(4,506)	(874)
Other Income:		
Interest income	673	1,089
Interest expense	(817)	(823)
Other expense	(138)	(169)
Total other (loss) income, net	(282)	97
Loss before income taxes	(4,788)	(777)
Benefit for income taxes	(998)	(295)
Net loss	$ (3,790)	$ (482)
Net loss per common and potential common share:		
Basic	$ (0.21)	$ (0.03)
Diluted	$ (0.21)	$ (0.03)

Weighted average common and potential common shares outstanding:		
Basic	18,473,855	18,159,503
Diluted	18,473,855	18,159,503

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

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CONCORD COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended March 31, 2005	March 31, 2004
Cash Flows from Operating Activities:		
Net loss	$ (3,790)	$ (482)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:		
Depreciation and amortization	2,159	1,113
Amortization of debt issuance costs	171	176
Realized investment losses (gains)	110	(12)
Write-off of in-process research and development	1,400	
Deferred income taxes provision	(1,127)	(285)
Changes in assets and liabilities, excluding effects of acquired business:		
Accounts receivable	6,000	2,574
Prepaid expenses and other current assets	160	210
Other assets	27	(13)
Accounts payable	(3,784)	(2,678)
Accrued expenses	(5,642)	(2,000)
Deferred revenue	3,070	2,961
Other liabilities	560	
Net cash (used for) provided by operating activities	(686)	1,564
Cash Flows from Investing Activities:		
Purchases of equipment and improvements	(1,241)	(776)
Purchases of marketable securities	(78,022)	(57,157)
Proceeds from maturities and sale of marketable securities	163,247	17,204
Acquisition of business, net of cash acquired	(88,340)	
Release of restricted cash		194
Net cash used for investing activities	(4,356)	(40,535)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	363	597
Net cash provided by financing activities	363	597
Net decrease in cash and cash equivalents	(4,679)	(38,374)
Cash and cash equivalents, beginning of period	15,816	69,436
Cash and cash equivalents, end of period	$ 11,137	$ 31,062
Supplemental Disclosure of Cash Flow Information:		

Cash paid for income taxes	$	881	$	206
Supplemental Disclosure of Noncash Investing Transactions:				
Unrealized (loss) gain on available-for-sale securities	$	(605)	$	832

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

CONCORD COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Concord Communications, Inc. (the Company or Concord) in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, these interim financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements reflect all adjustments and accruals of a normal recurring nature, which management considers necessary for a fair presentation of the Company s financial position as of March 31, 2005 and December 31, 2004, and the Company s results of operations for the three months ended March 31, 2005 and 2004. The results for the interim periods presented are not necessarily indicative of results to be expected for any future period. The financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company s 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on March 16, 2005.

(b) Financial Instruments, Concentration of Credit Risk and Significant Customers

The Company maintains an allowance for potential credit losses but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. No individual customer accounted for more than 10% of revenues for either the three months ended March 31, 2005 or 2004. No individual customer accounted for more than 10% of the Company s accounts receivable at March 31, 2005 and one North American telecommunications customer accounted for approximately 16% of accounts receivable at December 31, 2004.

(c) Derivative Financial Instruments

The Company uses forward contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of accounts receivable denominated in foreign currencies until such receivables are collected. A forward contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates. These foreign currency forward exchange contracts are denominated in the same currency in which the underlying foreign currency receivables are denominated and bear a contract value and maturity date that approximate the value and expected settlement date, respectively, of the underlying transactions. For contracts that are designated and effective as hedges, unrealized gains and losses on open contracts at the end of each accounting period, resulting from changes in the fair value of these contracts, are recognized in earnings in the same period as gains and losses on the underlying foreign denominated receivables are recognized and generally offset. Gains and losses on forward contracts and foreign denominated receivables are included in other income (expense), net. The Company does not enter into or hold derivatives for trading or speculative purposes and only enters into contracts with highly rated financial institutions. At March 31, 2005 the Company did not have any forward contracts outstanding, gains and losses on such contracts were not material for any period presented.

(d) Stock-Based Compensation

The Company accounts for employee stock-based compensation arrangements under the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* permits the use of either a fair-value based method or the intrinsic value method under APB No. 25

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to account for employee stock-based compensation arrangements. Companies that elect to use the intrinsic value method provided in APB No. 25 are required to disclose the pro forma net income (loss) and net income (loss) per share that would have resulted from the use of the fair value method. The Company has provided, below, the pro forma disclosures of the effect on net income (loss) and net income (loss) per share as if SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment to FASB Statement No. 123,* had been applied in measuring compensation expense for all periods presented.

	Three Months Ended	
	March 31, 2005	March 31, 2004
Net loss:		
As reported	$ (3,790)	$ (482)
Add:		
Stock-based employee compensation expense included in reported net loss, net of related taxes	33	
Less:		
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(1,428)	(1,979)
Pro forma net loss	$ (5,185)	$ (2,461)
Basic net loss per share:		
As reported	$ (0.21)	$ (0.03)
Pro forma	$ (0.28)	$ (0.14)
Diluted net loss per share:		
As reported	$ (0.21)	$ (0.03)
Pro forma	$ (0.28)	$ (0.14)

(e) Restricted Stock

In February 2005, the Board of Directors approved a stock-based award to certain key employees of Aprisma Holding, Inc., a company acquired by the Company (Note 8). These awards consisted of a grant of restricted stock which vests over four years. The restricted shares are forfeited by the employee upon termination of employment with the Company. Upon the grant of the restricted stock, deferred compensation for the fair market value of the stock on the date granted was recorded as a separate component of stockholders equity and subsequently amortized as compensation expense over the vesting period. Amortization expense for the three months ended March 31, 2005 was $0.04 million.

(f) Restricted Cash

Restricted cash totaling $0.6 and $0.07 million at March 31, 2005 and December 31, 2004, respectively, consists of money market funds held in the Company s name with a major financial institution and treasury bills. Such funds are being used as collateral under letter of credit arrangements required by the landlord for leases that terminate in 2007 and 2008.

(g) Reclassifications

Certain amounts in the 2004 condensed consolidated financial statements have been reclassified to conform to the 2005 presentation.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company s goodwill resulted from the acquisition of netViz Corporation (netViz) on July 17, 2003, Vitel Software, Inc. (Vitel) on January 5, 2005 (see Note 8) and Aprisma Holdings, Inc. (Aprisma) on February 22, 2005 (see Note 8). The changes in the carrying amount of goodwill, by reportable segment (see Note 7), for the three months ended March 31, 2005 and 2004 are as follows (in thousands):

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	Concord	Spectrum	Total
Balance as of December 31, 2004	6,225		6,225
Goodwill acquired due to Aprisma acquisition		77,947	77,947
Goodwill acquired due to Vitel acquisition	3,951		3,951
Balance as of March 31, 2005	$ 10,176	$ 77,947	$ 88,123

There were no changes in the carrying amount of goodwill during the three months ended March 31, 2004.

Goodwill is tested for impairment on June 30th of each year and whenever changes in circumstances indicate goodwill could be impaired. As of June 30, 2004, the Company performed its annual test for impairment on the carrying value of goodwill related to netViz, on its existing reporting units. The Company compared the fair value of each reporting unit to which goodwill has been allocated to its book value and determined that no impairment existed at that date. The carrying value of goodwill resulting from the netViz, Vitel (see Note 9) and Aprisma (see Note 9) acquisitions will be tested for impairment at June 30, 2005.

Other intangible assets as of March 31, 2005 and December 31, 2004 consist of the following (in thousands):

	March 31, 2005			December 31, 2004		
(in thousands)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Completed technology (software)	$ 3,730	$ (997)	$ 2,733	$ 2,130	$ (799)	$ 1,331
Core technology (software)	7,530	(173)	7,357			
Reseller relationships	5,240	(309)	4,931	570	(171)	399
Maintenance relationships	5,830	(220)	5,610	340	(102)	238
Subscription relationships	860	(17)	843			
Non-compete agreements	210	(5)	205			
Backlog	399	(346)	53			
Contractor agreements	300	(131)	169	300	(112)	188
Trade name/trademark	1,050	(60)	990	70	(35)	35
Total	$ 25,149	$ (2,258)	$ 22,891	$ 3,410	$ (1,219)	$ 2,191

Aggregate amortization expense for the three months ended March 31, 2005 and 2004 was $1.0 million and $0.2 million, respectively. For the three months ended March 31, 2005, approximately 69% of the aggregate expense was included in costs of revenues and the remainder was included in operating expenses.

3. IN-PROCESS RESEARCH AND DEVELOPMENT

On February 22, 2005 the Company acquired Aprisma Holdings Inc, (See Note 8). Based upon the status of ongoing research and development (R&D) efforts related to Aprisma and a review of the typical technology development cycle and standards for establishing technological feasibility of products, the Company identified SPECTRUM Version 8.0 as a project which represents development efforts in areas where the technologically feasibility has not yet been established. The SPECTRUM Version 8.0 project is a major release to the existing Aprisma product, which includes various architectural changes, such as removal of the dependency to link product on-site and the addition of Linux support. Since this in-process technology is being developed for highly specific applications, the Company believes that there is no alternate future use for the in-process technology beyond the stated purpose of the specific R&D project. Given the riskier nature of the cash flows related to the in-process R&D, the level of completion of the project and its perceived risk, a discount rate of 40% was applied to value the in-process R&D. The in-process R&D of $1.4 million was expensed during the three months ended March 31, 2005, since it was determined that it had not reached technological feasibility and had no alternative future use.

Technological feasibility is established when either of two sets of criteria is met:

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a) the detail program design has been completed, documented, and traced to product specifications and its high-risk development issues have been resolved; or

b) a working model of the product has been finished and determined to be complete and consistent with the product design.

Upon the acquisition, Aprisma did not have a completed product design or working model for the SPECTRUM Version 8.0.

The detailed program design for the integration of Aprisma s technology into the Concord *e*Health® Suite of products has not been completed as of March 31, 2005; thus, the exact costs and efforts required for completion of this integration have not been determined. Based on management s initial estimates, an integrated product based on Aprisma s technology will be introduced in the next year at an estimated cost to complete of $1.1 million. However, as with any major software development project, the timing of actual introduction may vary. Failure to successfully market and sell the integrated product may adversely impact the Company s business.

4. COMMITMENTS AND CONTINGENCIES

(a) Indemnifications

As permitted under Massachusetts law, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company s request in such capacity. The term of the indemnification period is for the officer or director s lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy pursuant to which the Company may recover all or a portion of amounts it pays to directors or officers under their indemnification agreements. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal.

The Company warrants that its software products will perform in all material respects in accordance with its standard published specifications in effect at the time of delivery of the licensed products to the customer for a period of 90 days. Additionally, the Company warrants that its maintenance services will be performed consistent with its maintenance policy in effect at the time those services are delivered. The Company believes its maintenance policy is consistent with generally accepted industry standards. If necessary, the Company would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history; however, the Company has never incurred significant expense under product or services warranties. As a result, the Company believes the estimated liability of these warranties is minimal.

The Company enters into standard indemnification agreements in the ordinary course of its business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally its business partners or customers, in connection with any patent, copyright, trademark, trade secret or other intellectual property infringement claim by any third party with respect to the Company s products. The term of these indemnification agreements is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is often capped at a dollar figure. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated liability of these agreements is minimal.

When, as part of an acquisition, the Company acquires all of the stock or all or a portion of the assets and/or liabilities of a company, it may assume liability for certain events or occurrences that took place prior to the date of acquisition. The maximum potential amount of future payments it could be required to make for such obligations is undeterminable at this time. The Company has no liabilities recorded for these exposures as of March 31, 2005.

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(b) Legal Proceedings

On April 30, 2004, the Company received a letter from LMS Technology Distributions SDN BHD (LMS) of Malaysia that demands that the Company reimburse LMS for approximately $4.65 million in alleged losses arising out of the Company s purported wrongful termination of a Concord Authorized Reseller Agreement (the CAR Agreement) with LMS. The Company disputes that the CAR Agreement was wrongfully terminated or that LMS is owed any of the amounts claimed, and the Company intends to defend vigorously against the demand. It is not possible to predict or determine the outcome of these demands or to provide ranges of losses that may arise, if any.

In November 2003, Concord received notice from a former sales employee in France, stating that he was wrongfully dismissed in July 2003. The former employee filed a wrongful termination lawsuit against Concord claiming approximately $0.4 million in damages. In January 2005, the Labor Court of Poissy issued its decision on the former employee s unfair dismissal and failure to pay commissions claims. The Court found that the Company did not fulfill our obligations as required by French law and awarded the former employee approximately $12,000. This payment was made by Concord in the three months ended March 31, 2005.

On December 6, 2002, Aprisma filed a complaint for patent infringement against Micromuse, Inc. in the U. S. District Court for the District of New Hampshire. This case remains pending, with a trial presently unscheduled. This case involves Aprisma s claim that Micromuse s systems management products, including NetcoolÓ products such as Netcool/OMNIbus, Impact and Precision infringe the following U.S. Patents: 5,436,909; 5,504,921; 5,777,549; 5,696,486; 5,768,501; and 6,064,304. Aprisma seeks injunctive relief and damages based on Micromuse s infringement. Micromuse has denied infringement, and has alleged that the asserted patents are invalid and are unenforceable. On January 11, 2005, following a two-day hearing, the Court issued a Memorandum and Order in which it adopted the proposed claim construction of the seven disputed claim terms at issue offered by Aprisma. Based on the Court s claim construction ruling, the parties filed summary judgment motions on the issue of infringement, for which they are awaiting a hearing.

On January 26, 2005, Aprisma was named as a defendant in litigation filed in the Southern District of New York alleging patent infringement of various U.S. patents allegedly owned by Micromuse. This case remains pending, with a trial presently unscheduled. This case involves Micromuse s claim that Aprisma s SNMP support products, the SPECTRUM Assurance Server, the SPECTRUM Alarm Monitor, Gateways and MPLS Manager products infringe the following U.S. Patents: 6,192,034; 6,219,648; 6,330,598; 6,687,335; 6,763,333; 5,936,547; and 6,766,375. Micromuse seeks declaratory, injunctive relief and damages for Aprisma s alleged infringement. On March 8, 2005, Aprisma filed a Motion to Dismiss or Transfer the Complaint to the District of New Hampshire. This Motion remains pending.

Based upon the circumstances in both of the Micromuse legal proceedings, an outcome cannot be reasonably predicted. Concord believes the allegations in the suit against Concord are without merit and intends to vigorously defend against them. Accordingly, no adjustment has been made in purchase accounting for a contingent settlement related to these legal proceedings. See Note 8 for a discussion of future accounting for these items.

5. NET LOSS PER SHARE

The Company computes earnings per share following the provisions of SFAS No. 128, *Earnings per Share*. Basic and diluted net loss per share is computed using the weighted-average number of common shares outstanding for a period.

Calculations of the basic and diluted net loss per common share is as follows:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net loss applicable to common stockholders	$ (3,790)	$ (482)
Weighted average common shares outstanding	18,473,855	18,159,503
Basic and diluted net loss per common share	$ (0.21)	$ (0.03)

For the three months ended March 31, 2005 and 2004, diluted weighted average shares outstanding does not include 2,153,443 and 1,629,989 potential common shares, respectively, as their effect would have been anti-dilutive.

The Emerging Issues Task Force (EITF) has issued a final consensus on Issue 04-08, *Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share,* which requires that convertible securities must be included in the dilutive earnings per share calculation, if dilutive, regardless of whether the market price trigger has been met. The Company s Convertible Senior Notes fall within the scope of EITF 04-08. In the three months ended December 31, 2004, the Company adopted the provisions of EITF 04-08 retroactively for previously reported earnings per share calculations. For the periods ended March 31, 2005 and 2004, common stock reserved for issuance upon conversion of approximately 3,209,776 shares was not included in diluted earnings per share because the effect of their inclusion would have been anti-dilutive.

6. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as the change in net assets of the Company during a period from transactions generated from non-owner sources. The only components of comprehensive income (loss) reported by the Company are net income (loss) and unrealized gains (losses) on available for sale securities.

Comprehensive income (loss) for the three months ended March 31, 2005 and 2004 is as follows:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net loss	$ (3,790)	$ (482)
Unrealized (loss) gain on marketable securities, net of tax	(375)	543
Comprehensive (loss) income	$ (4,165)	$ 61

7. SEGMENT REPORTING AND INTERNATIONAL INFORMATION

The Company follows the provisions of SFAS No. 131*, Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate, discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company s chief decision-making group, as defined under SFAS No. 131, is the executive management committee, which is comprised of the executive officers of the Company.

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The following table presents the approximate revenues by major geographical regions:

	Three Months Ended March 31, 2005	March 31, 2004
United States	$ 16,672	$ 14,342
United Kingdom	3,453	1,649
Germany	1,819	2,257
Europe (excluding the U.K. and Germany)	2,610	2,286
Rest of the World	4,557	3,311
Total	$ 29,111	$ 23,845

For the three months ended March 31, 2005, two countries, the United States and United Kingdom, accounted for greater than 10% of total revenues. For the three months ended March 31, 2004, no one country, except the United States, accounted for greater than 10% of total revenues. Substantially all of the Company s assets are located in the United States.

Following the acquisition of Aprisma, since then renamed Spectrum Business Unit, in February 2005, Concord now has two segments: Concord, which includes the revenue generated by Concord s core product, the eHealth Suite of software, which includes Vitel and netViz products, and Spectrum, which includes the revenues of Spectrum products. The Spectrum products manage the availability of IT infrastructures and the business services that rely on them. The operating results for the reportable segments for the three months ended March 31, 2005 were as follows:

	March 31, 2005			March 31, 2004		
	Concord	Spectrum	Total	Concord	Spectrum	Total
Revenues:						
License revenues	$ 9,605	$ 1,965	$ 11,570	$ 10,350		$ 10,350
Service revenues	14,966	2,575	17,541	$ 13,495		$ 13,495
Total revenues	24,571	4,540	29,111	$ 23,845		$ 23,845
Costs of Revenues:						
Cost of license revenues.	978	696	1,674	$ 822		$ 822
Cost of service revenues.	4,701	376	5,077	$ 3,949		$ 3,949
Total cost of revenues	5,679	1,072	6,751	$ 4,771		$ 4,771
Gross profit	$ 18,892	$ 3,468	$ 22,360	$ 19,074		$ 19,074

The results for the Spectrum segment for the three months ended March 31, 2005 include the results of operations for the period from the date of acquisition of Aprisma, February 22, 2005, through March 31, 2005. Prior to the acquisition of Aprisma, Concord s reportable segments were determined by customer type, which now makes up the current Concord segment. The accounting policies of the segments are the same as those for the Company on a consolidated basis. The executive management committee evaluates segment performance based on gross profit. Accordingly, all operating expenses are considered corporate level activities and are not allocated to segments. Also, the executive management committee does not assign assets to these segments.

The Company currently does not provide revenues by product or product family, as it is impractical due to the nature of its single suite of products. Some components of the suite could be included in more than one product family. In addition, categorization and classification of the Company s components into product families is changing in nature; changes in packaging, licensing and product categorization occur on a frequent basis.

8. ACQUISITIONS

(a) Acquisition of Vitel Software, Incorporated

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On January 5, 2005, Concord acquired 100% of the common stock of privately-held Vitel Software, Incorporated (Vitel), a provider of voice network performance management solutions. Vitel technology enables enterprises and service providers to manage the performance of next-generation IP and legacy voice networks and messaging systems, including voice mail, from multiple vendors. The purchase of Vitel will position Concord to deliver innovative solutions to customers before, during, and after their migration to an IP-based voice network. This strategic acquisition will enable Concord to proactively manage voice network performance across multiple vendors, applications, and technologies.

Consideration for the acquisition totaled $4.0 million of cash purchase price and transaction costs of $0.1 million. The acquisition was accounted for using the purchase method of accounting and the results of operations of the acquired business since the date of acquisition were included in the financial statements of the Company for the three month period ended March 31, 2005. The total purchase consideration was allocated to the assets and liabilities assumed at their estimated fair values on the date of acquisition, as determined by management, and with respect to identifiable intangible assets by management with the assistance of an appraisal provided by a third-party valuation firm. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, the goodwill will not be amortized and will be tested for impairment annually as required by SFAS 142.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

		(In thousands)
Total consideration:		
Cash	$	4,000
Transaction costs		125
Total purchase consideration	$	4,125
Allocation of the purchase consideration		
Current assets, including cash of $35	$	148
Fixed assets		7
Net deferred tax asset		79
Identifiable intangible assets		790
Goodwill		3,951
Total assets acquired		4,975
Less: fair value of liabilities assumed		850
	$	4,125

The following are identified intangible assets acquired and the respective estimated periods over which the assets will be amortized:

	Amount	**Amortization Period**

		(In thousands)	(In years)
Completed technology (software)	$	320	5
Maintenance relationships		400	6
Reseller relationships		70	5
Total	$	790	

The completed technology (software), reseller relationships and maintenance relationships are being amortized at the greater of (a) the ratio that current revenues bear to the total of current and anticipated future revenues or (b) the straight-line method over their respective remaining useful lives. For the three months ended March 31, 2005, the identifiable intangible assets have been amortized using the straight-line method over their respective remaining useful lives. The values of the completed technology (software), reseller relationships, and maintenance relationships were determined using the income approach. The income approach requires a projection of revenues and expenses specifically attributed to the intangible assets. The discounted cash flow (DCF) method is then applied to the potential income streams after making necessary adjustments with respect to such factors as the wasting nature of the identifiable intangible assets and the allowance of a fair return on the net tangible assets and other intangible assets employed. There are several variations on the income approach, including the relief-from-royalty method, the avoided cost method, and the lost profits method.

The relief-from-royalty method was used to value the completed technology. The relief-from-royalty method is used to estimate the cost savings that accrue to the owner of the intangible assets that would otherwise have to pay royalties or licensee fees on revenues earned through the use of the asset. The royalty rate used in the analysis is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The market-derived royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the completed technology are as follows: royalty rate 5%, discount rate 18.5%, tax rate 40% and estimated average economic life of 5 years.

The maintenance relationships were valued using the income approach without variation. The key assumptions used in valuing the maintenance relationships are as follows: discount rate 18.5%, tax rate 40% and estimated average economic life of 6 years.

The avoided cost method was used to value the reseller relationship. The avoided cost method considers the concept of avoided cost as an indicator of value. The avoided cost method is appropriate for estimating the fair value of an asset where reliable data for sales of comparable property are not available and where the property does not directly produce an income stream. The key assumptions used in valuing the reseller relationships are as follows: tax rate 40% and estimated average economic life of 5 years.

(b) Acquisition of Aprisma Holdings, Inc.

On February 22, 2005, the Company acquired privately held Aprisma Holdings Inc. (Aprisma). Aprisma s software provides business service intelligence and manages the availability of IT infrastructures and business services that rely upon them. Strategically combining the two companies complementary technologies will enable Concord to expand its ability to deliver a new generation of intelligent software that maps IT services to business processes, measures the actual end-user experience and manages the entire IT infrastructure. With its acquisition of Aprisma, Concord expects to significantly extend its ability to address this market by augmenting its product suite with proven fault management and sophisticated service modeling technologies.

Consideration for the acquisition totaled $82.4 million of cash purchase price, transaction costs of $2.2 million and payments of $2.8 million under Aprisma s Equity Participation Plan (EPP). The acquisition was accounted for using the purchase method of accounting and the results of operations of the acquired business since the date of acquisition were included in the financial statements of the Company for the three month period ended March 31, 2005. The total purchase consideration was allocated to the assets and liabilities assumed at their estimated fair values on the date of acquisition, as determined by management and, with respect to identifiable intangible assets, an appraisal provided by a third party valuation firm. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, the goodwill will not be amortized and will be tested for impairment annually as required by SFAS 142.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	(In thousands)
Purchase Price:	
Cash	$ 82,350

Equity Participation Plan payments		2,846
Transaction costs paid		1,941
Transaction costs accrued		269
Total purchase price	$	87,406
Allocation of purchase price		
Fair value of tangible assets acquired, excluding fixed assets	$	6,549

		(In thousands)
Fixed assets at fair value		3,970
Identifiable intangible assets		20,949
In-process research and development (Note 3)		1,400
Goodwill		77,947
Total assets acquired		110,815
Less: Fair value of liabilities assumed, including deferred revenue of $11,592		23,409
	$	87,406

The following are identified intangible assets acquired and the respective estimated periods over which the assets will be amortized:

		Amount (In thousands)	**Amortization Period (In years)**
Core Technology	$	7,530	5
Completed Technology		1,280	3
Direct Maintenance Customer Relationships		5,090	7
Direct Subscription Customer Relationships		860	6
Reseller Agreements		4,600	5
Product Name/Trademark		980	6
Non-Competition Agreements		210	5
Backlog		399	
Total	$	20,949	

The core technology, completed technology (software), maintenance and subscription relationships, and reseller relationships will be amortized at the greater of (a) the ratio that current revenues bear to the total of current and anticipated future revenues or (b) the straight-line method over their respective remaining useful lives. For the three months ended March 31, 2005, the identifiable intangible assets have been amortized using the straight-line method over their respective remaining lives. The product name/trademarks and the non compete agreements will be amortized on a straight line basis over their respective remaining useful lives.

The values of the core technology, completed technology (software), maintenance and subscription relationships, reseller relationships, product name/trademark and non-compete agreements were determined using the income approach.

The relief-from-royalty method was used to value the product name/trademark. The relief-from-royalty method is used to estimate the cost savings that accrue to the owner of the intangible assets that would otherwise have to pay royalties or licensee fees on revenues earned through the use of the asset. The royalty rate used in the analysis is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The market-derived royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the product trade name/trademark are as follows: royalty rate 1%, discount rate 18.5%, tax rate 40% and estimated average economic life of 6 years.

The core technology, completed technology and subscription and maintenance relationships were valued using the income approach without variation. The key assumptions used in valuing the core technology, completed technology and subscription and maintenance relationships are as follows: discount rate 18.5%, tax rate 40% and estimated average economic life of 5, 3, 7 and 6 years for core technology, completed technology, subscription relationships and maintenance relationships, respectively.

The avoided cost method was used to value the reseller relationship. The avoided cost method considers the concept of avoided cost as an indicator of value. The avoided cost method is appropriate for estimating the fair value of an asset where reliable data for sales of comparable property are not available and where the property does not directly produce an income stream. The key assumptions used in valuing the reseller relationships are as follows: tax rate 40% and estimated average economic life of 5 years.

The lost profits method was used to value the non-compete agreements of four employees valued as a group. The lost profits method recognizes that the current value of an asset may be premised upon the expected receipt of future economic benefits protected by clauses within an agreement. These benefits are generally considered to be higher income resulting from the avoidance of a loss in revenue that would likely occur without an agreement. The key assumptions used in valuing the non-compete agreements are as follows: discount rate 18.5%, tax rate 40% and estimated average economic life of 5 years.

The portion of the purchase price allocated to in-process research and development in the Aprisma acquisition was $1.4 million. At the date of acquisition, Aprisma s in-process research and development project SPECTRUM Version 8.0 had not reached technological feasibility and had no alternative use (see Note 3).

Backlog represents an Aprisma customization project for which the work had not commenced at the date of acquisition. During the period from the date of acquisition to March 31, 2005 the work was completed, product revenue was recognized and all of the intangible related to product revenue was amortized in cost of revenue. The remaining balance of the backlog intangible at March 31, 2005 of $53,000 will be amortized ratably as the related maintenance revenue is recognized.

Aprisma s Equity Participation Plan (EPP) was an incentive compensation plan set up for certain directors, officers and employees; under the plan, participants receive cash compensation if Aprisma is sold. Three equal payments are to be made to the participants: at the acquisition date, six months after the acquisition date and one year after the acquisition date. The $2.8 million reflects the portion immediately due and is without regard to future employment; accordingly, such amount is reflected as a component of the acquisition purchase price. The second and third payments, amounting to $6.1 million, are payable to the participants if they remain employed with the acquirer at each anniversary date or if they are terminated without cause by the acquirer prior to the anniversary dates. If the participants terminate their employment with the acquirer or are terminated with cause prior to the anniversary dates, then the payments are made to the original owners of Aprisma. With regard to the second and third payments, one person was identified by Concord for termination at the time of the acquisition. This person s second and third payments, totaling $0.6 million, have been recorded as a liability at the acquisition date. The remaining payments, amounting to $5.5 million, will be recorded as compensation expense over the service period by Concord, assuming the employment conditions, as described above, are met. If the participants terminate their employment or Concord terminates them with cause, such that the payments are made to the original owners of Aprisma, then, these payments will be recorded as additional purchase consideration for which goodwill would be increased. It is assumed that the majority of the transaction costs will not be deductible for tax purposes. However, the EPP will be deductible for tax purposes, with the exception of compensation for an Aprisma officer which will exceed the Section 162 (m) limitation of $1.0 million.

Prior to the acquisition of Aprisma by Concord, Aprisma filed a complaint for patent infringement against Micromuse, Inc. On the date of acquisition this case was pending. This case involves Aprisma s claim that Micromuse s systems management products, infringe upon certain of their patents. Micromuse has denied infringement, and has alleged that the asserted Aprisma patents are invalid and are unenforceable. Prior to the acquisition of Aprisma by Concord, Aprisma was named as a defendant in litigation alleging patent infringement of various U.S. patents allegedly owned by Micromuse. This case was pending at the date of acquisition. This case involves Micromuse s claim that certain Aprisma products infringe on certain of their patents. Concord believes the allegations in this suit are without merit and will vigorously defend against them. Based upon the circumstances in both of these legal proceedings, an outcome cannot be reasonably predicted. Concord believes the allegations in the suit against Concord are without merit and intends to vigorously defend against them. Accordingly, no adjustment has been made in purchase accounting for a contingent settlement related to these legal proceedings. If these legal proceedings are resolved and settled before February 22, 2006, the settlement will be recorded as an adjustment to goodwill. Should the legal proceedings be resolved and settled after February 22, 2006 the settlement will be included in the determination of net income or loss in the period in which the settlement is determined.

The following table reflects unaudited pro forma results of operations of the Company for the three months ended March 31, 2005 and March 31, 2004 assuming that the Aprisma acquisition had occurred on January 1, 2005 and January 1, 2004, respectively (in thousands, except per share data):

	Three Months Ended	
	March 31, 2005	March 31, 2004
Revenues	$ 34,871	$ 34,105
Net loss	(2,847)	(1,286)
Net loss per diluted share	$ (0.15)	$ (0.07)

9. ACCRUED SEVERANCE AND LEASE RESTRUCTURING CHARGES

Upon the purchase of Aprisma (see Note 8), the Company assumed certain liabilities at the fair value for abandoned facilities in South Wales, Australia; Herndon, Virginia; and Portsmouth, New Hampshire. The present value of the remaining lease obligations for these locations, less estimated sublease income totaled $2.7 million at March 31, 2005 and were for leases that expire at various dates through 2012. In the period from February 22, 2005, the date of acquisition, through March 31, 2005 rent and related expense payments and sublease income received were charged against the lease restructuring accrual.

The Company may record additional adjustments or charges in the future due to changes in estimates and the volatility of the real estate markets in which the Company s facilities are located. As of March 31, 2005 the Company does not expect future charges related to lease obligations and restoration costs, excluding estimated sublease income, to exceed approximately $4.9 million, the maximum undiscounted remaining unaccrued obligation under existing contractual lease terms.

As a result of restructuring actions taken in connection with the Aprisma acquisition, $1.1 million of merger related costs associated with the severance of approximately 11 Aprisma employees was accrued in purchase accounting. The Company expects that all of the severance and related costs will be paid out by March 31, 2006. For the period from February 22, 2005, the date of acquisition, through March 31, 2005 approximately $0.4 million in payments were charged against the severance accrual.

10. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 123, SFAS 123R *Share-Based Payment.* SFAS No. 123R requires all companies to measure compensation costs for all share-based payments, including stock options, at fair value and expense such payments over the service period. SFAS No. 123R specifies that companies must use an option-pricing model to estimate fair value, although it does not specifically require the use of a particular model. The FASB announced that it would permit registrants additional time to implement the requirements of SFAS No. 123R. The FASB will permit companies to implement SFAS 123R for fiscal years beginning after June 15, 2005, and therefore, will be effective for the Company beginning with the first quarter of 2006. Under the provisions of FAS 123R, companies can select from three transition methods for the implementation of this standard. The modified prospective method would require all new awards that are granted after the effective date to use the provisions of FAS 123R. Under this method, for vested awards that are outstanding on the effective date of FAS 123R, a company would not have to record any additional compensation expense. For unvested awards that are outstanding on the effective date of FAS 123R and were previously included as part of pro forma net income and earnings per share under the provisions of FAS 123 would be charged to expense over the remaining vesting period, without any changes in measurement. The second alternative is a variation of the modified prospective method, which would allow companies to restate earlier interim periods in the year that FAS 123R is adopted using the applicable FAS 123 pro forma amounts. Under the third alternative, the modified retrospective method, companies would apply the modified prospective method and also restate their prior financial statements to include the amounts that were previously recognized in their pro forma disclosures under the original provisions of FAS 123. Currently, the Company discloses the estimated effect on net income of these share-based payments in the footnotes to the financial statements and the estimated fair value of the share-based payments has historically been determined using the Black-Scholes pricing model. The Company has not determined which option-pricing model or transition method to use upon implementation of this standard and has not yet completed its evaluation of the impact of SFAS No. 123R, but expects the adoption to have a material effect on its consolidated financial statements.

The FASB has issued two FASB Staff Positions (FSP) that provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 that was signed into law on October 22, 2004. The American Jobs Creation Act of 2004 allows for temporary dividend deductions equal to 85% of cash dividends received during the tax year from controlled foreign corporations and invested in the United States. The result of this legislation could affect how companies report their deferred income tax balances. The first FSP is FSP SFAS 109-1 and concludes that the tax relief from this legislation should be accounted for as a special deduction instead of a tax rate reduction. The second FSP is FSP SFAS 109-2 and gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earning for purposes of applying FASB Statement No. 109, Accounting for Income Taxes. The Company has not yet completed its evaluation of the provisions of the American Jobs Creation Act of 2004. The repatriation of foreign earnings would not have a material effect on the Company s consolidated financial statements. The Company does not anticipate the repatriation of foreign earnings to the United States in the future.

11. SUBSEQUENT EVENT

On April 7, 2005, the Company announced that Computer Associates International, Inc. (Computer Associates), Minuteman Acquisition Corp., a wholly owned subsidiary of Computer Associates (Merger Sub) and Concord entered into an Agreement and Plan of Merger (the Merger Agreement) under which Merger Sub will merge with and into Concord, with Concord as the surviving corporation (the Merger). As a result of the Merger, Concord will become a wholly owned subsidiary of Computer Associates.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of common stock of Concord will be converted into the right to receive $17.00 in cash, without interest. Additionally, at the effective time of the Merger, each outstanding option to purchase common stock of Concord, whether vested or unvested, will be assumed by Computer Associates and become an option to acquire shares of common stock of Computer Associates, on the terms and conditions set forth in the Merger Agreement.

The Merger Agreement has been approved by Concord s Board of Directors, and the transactions contemplated by the Merger Agreement are subject to, among other things, adoptions of the Merger Agreement by Concord s shareholders, the termination or expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements

Act of 1976, as amended, and other customary closing conditions. The Merger is anticipated to be consummated in the second or third quarter of 2005.

A contingent termination fee of $11.5 million plus reimbursement of up to $0.5 million of Computer Associates expenses related to the transaction is payable by the Company to Computer Associates in the event that the Merger Agreement is terminated as a result of certain events as detailed in the Merger Agreement.

CONCORD COMMUNICATIONS, INC.
FORM 10-Q, March 31, 2005

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

OVERVIEW

We are a software company that provides a solution to enterprise customers, managed service providers and telecommunication carriers. We serve the Business Service Management (BSM) market with our suite of solutions. The *e*Health® Suite of products, which maps IT services to business needs, measures the actual end user experience and manages application, system and network infrastructure by simplifying the management of the underlying technology and infrastructure required to deliver business services. Our SPECTRUM® software manages the availability of IT infrastructures and the business services that rely on them. Our *Vitel IVIZE*® solution enables enterprises and service providers to manage the performance of next-generation IP and legacy voice networks and messaging systems, including voice mail, from multiple vendors. Our n***etViz***® solution enables users to visualize business processes and allows them to map relationships within the supporting technology infrastructure through data-driven icons.

We sell our products worldwide through a direct sales force, channel partners, and other resellers. We have sales employees in nineteen countries, including the United States and we have customers in 63 countries.

Our products are generally sold on a perpetual license basis. On an initial purchase, customers will usually buy a license to our *e*Health® Console and a certain number of software elements, which is dependent on the number of components of the IT services to be managed. As a customer s IT services management requirements expands, they will order additional modules and elements. We believe that our significant installed base provides an opportunity to sell additional software elements and other products to our existing customer accounts. Most of our customers purchase maintenance upon the initial licensing of our software. In addition, the majority of these customers renew their maintenance agreements annually. For an annual maintenance fee, a customer receives telephone, email and web-based support, as well as updated product releases. In addition to on-going technical support, we also offer professional and educational services to our customers.

Our total revenues are generated from license revenues and service revenues. License revenues are usually generated by the purchase of a license to our product. Concord s service revenues consist of fees for maintenance, training and professional services. For the three months ending March 31, 2005, our total revenues increased year over year: total revenues were $29.1 million, up 22.1% from $23.8 million mostly due to the acquisition of Aprisma Holdings. For the three months ending March 31, 2005 eHealth revenue fell short of our expectations. The lower revenue did not offset our increased level of expenses and resulted in a decrease in profitability year over year. In addition, expenses related to the acquisition of Aprisma, such as in-process research and development expenses and the compensation expenses related to the Aprisma equity participation plan also affected our profitability. This plan provides payment to a certain number of Aprisma employees following the sale of Aprisma Holdings provided certain employment conditions are met (see Note 8). Our diluted earnings per share decreased to $(0.21) per share for the three-month period ending March 31, 2005 compared to $(0.03) per share for the corresponding prior year period. We used $0.7 million in operating cash during the three-month period ending March 31, 2005 and finished the quarter with $69.5 million of cash, cash equivalents, marketable securities and restricted cash.

On January 5, 2005, we completed the acquisition of privately held Vitel Software, Incorporated. Vitel s software enables enterprises and service providers to manage the performance of voice networks and messaging systems that are either internet protocol-based, time division multiplexing-based, or include a hybrid of both. The *Vitel IVIZE®* product, now renamed Concord s eHealth for Voice, provides a unified view into the performance of voice networks built on equipment from multiple vendors such as market leaders Avaya, Cisco, and Nortel Networks. The purchase price was $4.1 million, including $0.1 million in direct costs of acquisition and was paid in

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cash during the three months ending March 31, 2005. The acquisition has been accounted for under the purchase method of accounting (see Note 8).

On February 22, 2005, we completed the acquisition of Aprisma Holdings, Inc, which has been renamed internally by Concord s management, Spectrum Business Unit. Prior to its acquisition by Concord, Aprisma Holdings, Inc. was a privately held software company owned by Gores Technology Group and its operating subsidiary, Aprisma Management Technologies, Inc. (Aprisma). Concord s cash payment to acquire Aprisma on February 22, 2005 was approximately $82.4 million. The acquisition has been accounted for under the purchase method of accounting (see Note 8).

Aprisma s SPECTRUM® software manages the availability of IT infrastructures and the business services that rely on them. Concord believes that strategically combining the two companies complementary technologies will enable Concord to expand its ability to deliver a new generation of intelligent BSM software that maps IT services to business processes, measures the actual end-user experience, and manages the entire IT infrastructure. Aprisma, which profitably generated approximately $43.9 million in 2004 revenues, will operate as a business unit within Concord.

On April 7, 2005, Concord announced that it had signed a definitive agreement to be acquired by Computer Associates International, Inc. If this transaction is consummated, Concord expects to become a wholly owned subsidiary of Computer Associates.

Pursuant to the merger agreement, each issued and outstanding share of common stock of Concord will be converted into the right to receive $17.00 in cash, without interest. Additionally, at the effective time of the merger, each outstanding option to purchase common stock of Concord, whether vested or unvested, will be assumed by Computer Associates and become an option to acquire shares of common stock of Computer Associates, on the terms and conditions set forth in the Merger Agreement.

The merger agreement has been approved by Concord s Board of Directors, and the transactions contemplated by the merger agreement are subject to, among other things, adoption of the Merger Agreement by Concord s shareholders, the termination or expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and other customary closing conditions. The Merger is anticipated to be consummated in the second or third quarter of 2005.

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Critical Accounting Policies, Significant Estimates and Judgments

The accompanying discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. U.S. GAAP requires us to make estimates and judgments in several areas. If actual results differ significantly from management s estimates and projections, there could be a material effect on our financial statements. See our audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K and which contain accounting policies and other disclosures required by U.S. GAAP.

We believe that the policies, significant estimates and judgments discussed below are the most critical to our financial statements and the understanding of our financial condition and results of operations because their application places the most significant demands on management s judgment.

(a) Revenue Recognition

Our revenues consist of software license revenues and service revenues. Software license revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition, as modified by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with respect to Certain Transactions.* Software license revenues are recognized when persuasive evidence of an arrangement exists and delivery of the software has occurred, provided that the license fee is fixed or determinable, collection is considered reasonably assured and no customer acceptance clauses exist. If an arrangement includes an acceptance provision, revenue recognition occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period. If an arrangement includes a right of return for the possibility that the software does not meet published specifications during the warranty period, which is typically 90 days, revenue is recognized upon shipment if all other criteria are met as our product is mature and we have not experienced returns of our products. If the fee is determined not to be fixed or determinable, revenue is recognized when the fees become due. If collection is not considered reasonably assured, revenue is recognized upon the receipt of cash. Revenues under multiple-element arrangements, which typically include software products, services, maintenance and sometimes undelivered specified software upgrades sold together, are allocated to each element using the residual method in accordance with SOP 98-9. Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when these elements are delivered; the remainder of the arrangement consideration is allocated to the software. We have established sufficient vendor specific objective evidence for professional services, training, maintenance, customer support services and specified software upgrades based on the price charged when these elements are sold separately. Accordingly, software license revenues are recognized under the residual method in arrangements in which software is licensed with professional services, training, maintenance, customer support services and specified software upgrades. The Company recognizes revenue from term license arrangements ratably over the term of the contract on a straight-line basis if we do not have VSOE on the undelivered maintenance; this will generally occur when the term of the maintenance agreement is the same as the license agreement.

Service revenues include professional services, training, and maintenance and customer support fees. Professional services are not essential to the functionality of the other elements in an arrangement and are accounted for separately. Service revenues are recognized as the services are performed, provided evidence of an arrangement exists, fees are fixed or determinable, and collection is considered reasonably assured.

Maintenance revenues, a component of service revenues, are derived from customer support agreements generally entered into in connection with initial license sales and subsequent renewals. Maintenance fees include the right to unspecified upgrades on a when-and-if-available basis and ongoing technical support. Maintenance revenues are recognized ratably over the term of the maintenance period. Payments for maintenance fees are generally made in advance and are included in deferred revenue.

We license our software to end-users and resellers. Decisions regarding revenue recognition are centralized at our corporate headquarters, located in the United States. Our arrangements with customers do not generally include provisions involving acceptance of our products by our customers. However, if a customer arrangement includes an acceptance provision, revenue recognition occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period. With respect to revenues from our channel partners and other resellers, we recognize revenue upon delivery of our software to the channel partner or reseller. We do not offer any right of return, price protection or similar rights to our channel partners and other resellers.

For all sales, in the absence of a signed license agreement, we use either a purchase order or purchase order equivalent as evidence of an arrangement. If a signed license agreement is obtained, we use either the license agreement or the license agreement and a purchase order as evidence of an arrangement. Sales to resellers are usually evidenced by a master agreement governing the relationship together with purchase orders on a transaction-by-transaction basis.

Delivery generally occurs when product is delivered to a common carrier and the delivery terms are FOB Concord. The costs of shipping and handling related to the delivery of the product are included in revenue. In the case of arrangements with resellers, revenue is recognized upon delivery to the reseller. Most of these arrangements involve a sell-through by the reseller to an end user. For a reseller, evidence usually comes in the form of a purchase order typically identifying the end-user.

At the time of the transaction, we assess whether the fee associated with our revenue transaction is fixed or determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after our normal payment terms, which are usually 30 to 60 days from invoice date, depending upon the region, we account for the fee as not being fixed or determinable. In these cases, we recognize revenue when the fees become due.

We assess collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue upon receipt of cash. Concord s channel partners and other resellers are responsible to Concord upon delivery.

For arrangements with multiple elements (for example, undelivered maintenance and support or undelivered specified software upgrades), we allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. This means that we defer revenue from the fee arrangement equivalent to the fair value of the undelivered elements. We determine fair values for ongoing maintenance and support obligations using our internal pricing policies for maintenance and by referencing the prices at which we have sold separate maintenance contract renewals to our customers. We determine fair value of services, such as training or consulting, by referencing the prices at which we have separately sold comparable services to our customers. For specified undelivered software upgrades, we determine fair value of these upgrades by referencing the prices at which we sell upgrades separately to our customers.

The Company recognizes revenue from term license arrangements ratably over the term of the contract on a straight-line basis if we do not have VSOE on the undelivered maintenance; this will generally occur when the term of the maintenance agreement is the same as the license agreement.

The majority of our sales transactions are completed using standard terms and conditions; however, there are agreements that contain non-standard terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple obligations arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements and when to recognize the revenue for each element. Changes in the allocation of the sales price between deliverable elements might impact the timing of revenue recognition, but would not change the total revenue recognized for the transaction.

(b) Accounts Receivable

We record our trade accounts receivable at the invoiced amount; these accounts do not bear interest. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer s current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based on our historical experience and any specific customer collection issues that we have identified. We review our allowance for doubtful accounts on a quarterly basis. We review all past due balances over 60 days individually for collectibility. We charge account balances against the allowance when we feel it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure to our customers.

While credit losses have historically been within our expectations and appropriate reserves have been established, we cannot guarantee that we will continue to experience the same credit loss rates that we have experienced in the past. Thus, if the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates, and additional allowances would be required.

(c) Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. To do this, we estimate our actual current tax liabilities, while also assessing temporary differences resulting from differing treatment of items, such as deferred revenue and expense accruals, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. To the extent we reverse any portion of the valuation allowance, we must recognize a benefit within the tax provision in the statement of operations or to additional paid-in capital for the benefit of deductions for stock option exercises.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have not placed any reserve on our deferred tax assets by recording a valuation allowance. The resulting net deferred tax asset of $14.9 million at March 31, 2005 is based on our estimate that future taxable income we expect to generate will be sufficient to realize the net deferred asset. In the event the actual results differ from the estimates or we adjust these estimates in future periods, we may need to establish another valuation allowance. Establishing new or additional valuation allowances could materially adversely impact our financial position and results of operations.

(d) Accounting for Acquisitions and Acquired In-process Research and Development

The purchase price of businesses acquired accounted for as purchase business combinations, is allocated to the tangible and intangible assets acquired based on their estimated fair values with any amount in excess of such allocations designated as goodwill, in accordance with SFAS No. 141, *Business Combinations.* Our accounting for acquisitions involves significant judgments and estimates regarding primarily, but not limited to: the fair value of acquired intangible assets, which are based on projections of future revenues and cash flows, assumptions regarding discount factors, royalty rates, tax rates, amortization methodologies and related useful lives, as well as the fair value of other acquired assets and assumed liabilities, including potential contingencies and deferred income taxes. The valuation of purchased intangibles is based upon estimates of the future performance and cash flows from the acquired business. If different assumptions are used, it could materially impact the purchase price allocations and

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our financial position and results of operations. Our identifiable assets are generally amortized at the greater of (a) the ratio that current revenues bear to the total of current and anticipated future revenues or (b) the straight-line method over their respective remaining useful lives.

We completed our acquisitions of Vitel Software Incorporated (Vitel) and Aprisma Holdings, Inc. (Aprisma) on January 5, 2005 and on February 22, 2005, respectively. Both acquisitions were accounted for under the purchase method of accounting and resulted in recording significant goodwill and other intangible asset balances. The purchase prices of Vitel and Aprisma have been allocated to the assets acquired and liabilities assumed at their estimated fair values on the date of acquisition, as determined by management and, with respect to the identifiable intangible assets, an appraisal.

The values of certain identifiable assets of Vitel and Aprisma were determined using the income approach. The income approach requires a projection of revenues and expenses specifically attributed to the intangible assets. The discounted cash flow (DCF) method is then applied to the potential income streams after making necessary adjustments with respect to such factors as the wasting nature of the identifiable intangible assets and the allowance of a fair return on the net tangible assets and other intangible assets employed. There are several variations on the income approach, including the relief-from-royalty method, the avoided cost method, and the lost profits method.

The relief-from-royalty method is used to estimate the cost savings that accrue to the owner of the intangible assets that would otherwise have to pay royalties or licensee fees on revenues earned through the use of the asset. The royalty rate used in the analysis is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The market-derived royalty rate is then applied to estimate the royalty savings.

The avoided cost method considers the concept of avoided cost as an indicator of value. The avoided cost method is appropriate for estimating the fair value of an asset where reliable data for sales of comparable property are not available and where the property does not directly produce an income stream.

We completed our acquisition of Vitel on January 5, 2005. The values of the completed technology (software), reseller relationships, and maintenance relationships for Vitel were determined using the income approach.

The relief-from-royalty method was used to value the completed technology. The key assumptions used in valuing the completed technology of Vitel are as follows: royalty rate 5%, discount rate 18.5%, tax rate 40% and estimated average economic life of 5 years.

The maintenance relationships of Vitel were valued using the income approach without variation. The key assumptions used in valuing the maintenance relationships of Vitel are as follows: discount rate 18.5%, tax rate 40% and estimated average economic life of 6 years.

The avoided cost method was used to value the reseller relationship of Vitel. The key assumptions used in valuing the reseller relationships of Vitel are as follows: tax rate 40% and estimated average economic life of 5 years.

We completed our acquisition of Aprisma on February 22, 2005. The value of the core technology, completed technology, maintenance and subscription relationships, reseller relationships, product trade-name and non compete agreements were valued using the income approach.

The relief-from-royalty method was used to value the product trade name/trademark. The key assumptions used in valuing the product trade name/trademark are as follows: royalty rate 1%, discount rate 18.5%, tax rate 40% and estimated average economic life of 6 years.

The core technology, completed technology and subscription and maintenance relationships were valued using the income approach without variation. The key assumptions used in valuing the core technology, completed technology and subscription and maintenance relationships are as follows: discount rate 18.5%, tax rate 40% and estimated average economic life of 5, 3, 7 and 6 years for core technology, completed technology, subscription relationships and maintenance relationships, respectively.

The avoided cost method was used to value the reseller relationship. The key assumptions used in valuing the reseller relationships are as follows: tax rate 40% and estimated average economic life of 5 years.

The lost profits method was used to value the non-compete agreements of four employees valued as a group. The key assumptions used in valuing the non-compete agreements are as follows: discount rate 18.5%, tax rate 40% and estimated average economic life of 5 years.

Based upon the status of ongoing research and development (R&D) efforts related to Aprisma and a review of the typical technology development cycle and standards for establishing technological feasibility of products, the Company identified SPECTRUM Version 8.0 as a project which represents development efforts in areas where the technologically feasibility has not yet been established. The SPECTRUM Version 8.0 project is a major release to the existing Aprisma product, which includes various architectural changes, such as removal of the dependency to link product on-site and the addition of Linux support. Since this in-process technology is being developed for highly specific applications, the Company believes that there is no alternate future use for the in-process technology beyond the stated purpose of the specific R&D project. Given the riskier nature of the cash flows related to the in-process R&D, the level of completion of the project and its perceived risk, a discount rate of 40% was applied to value the in-process R&D. The in-process R&D of $1.4 million was expensed during the three months ended March 31, 2005, since it was determined that it had not reached technological feasibility and had no alternative future use.

Technological feasibility is established when either of two sets of criteria is met:

a) the detail program design has been completed, documented, and traced to product specifications and its high-risk development issues have been resolved; or

b) a working model of the product has been finished and determined to be complete and consistent with the product design.

(e) Valuation of Long-Lived Tangible and Intangible Assets and Goodwill

We have significant long-lived tangible and intangible assets and goodwill, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The long-lived tangible assets are fixed assets, which are depreciated over their estimated useful lives. The long-lived intangible assets are core technology, completed technology (software), reseller relationships, maintenance and subscription relationships, which are amortized at the greater of (a) the ratio that current revenues bear to the total of current and anticipated future revenues or (b) the straight line method over their respective remaining useful lives; and contractor agreements, product name/trademark and non-compete agreements which are being amortized using the straight-line method over their useful lives. Goodwill is not amortized.

At each quarter-end, the carrying value of the completed technology (software) is compared to its net realizable value (NRV). NRV is the estimated future gross revenues from products that incorporate the software reduced by the estimated future costs of disposal. If NRV is less than the carrying value, the excess is written-off and the then current NRV becomes the new carrying value of the software. We assess the potential impairment of other identifiable intangible assets and fixed assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important, which could trigger an impairment of such assets, include the following:

significant underperformance relative to historical or projected future operating results;

significant changes in the manner of or use of the acquired assets or the strategy for our overall business;

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significant negative industry or economic trends;

significant decline in our stock price for a sustained period; and

a decline in our market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact future results of operations and financial position in the reporting period identified.

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* or SFAS 142 requires goodwill acquired as a result of a purchase method business combination to be tested for impairment using a two-step process. The first step compares the fair value of the reporting unit with the unit s carrying value, including goodwill. When the carrying value of the reporting unit is greater than fair value, the unit s goodwill may be impaired, and the second step must be completed to measure the amount of the goodwill impairment charge, if any. In the second step, the implied fair value of the reporting unit s goodwill is compared with the carrying amount of the unit s goodwill. If the carrying amount is greater than the implied fair value, the carrying value of the goodwill must be written down to its implied fair value. Goodwill is required to be tested for impairment at least annually, or more frequently when events and circumstances occur indicating that the recorded goodwill might be impaired. We perform the annual assessment at June 30 of each fiscal year.

As of June 30, 2004, we performed our annual test for impairment on the carrying value of goodwill relative to netViz, on our reporting units. We compared the fair value of each reporting unit to which goodwill has been allocated to its book value and determined that no impairment existed at that date. The carrying value of goodwill resulting from the netViz, Vitel and Aprisma acquisitions will be tested for impairment at June 30, 2005.

Factors we consider important, which could trigger an impairment of goodwill, include the following:

significant underperformance relative to historical or projected future operating results;

significant negative industry or economic trends;

significant decline in our stock price for a sustained period; and

a decline in our market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact future results of operations and financial position in the reporting period identified.

Significant judgments and estimates are involved in determining the useful lives of our intangible assets, determining what reporting units exist and assessing when events or circumstances would require an interim impairment analysis of goodwill or other long-lived assets to be performed. Changes in events or circumstances, including but not limited to technological advances or competition which could result in shorter useful lives, additional reporting units which may require alternative methods of estimating fair value, or economic or market conditions which may affect previous assumptions and estimates, could have a significant impact on our results of operations or financial position through accelerated amortization expense or impairment charges.

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain financial data as percentages of the Company s total revenues:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Revenues:		
License revenues	39.7%	43.4%
Service revenues	60.3	56.6
Total revenues	100.0	100.0
Cost of Revenues:		
Cost of license revenues	5.8	3.4
Cost of service revenues	17.4	16.6
Total cost of revenues	23.2	20.0
Gross profit	76.8	80.0
Operating Expenses:		
Research and development	24.6	24.3
Sales and marketing	48.2	48.3
General and administrative	14.3	11.1
Acquisition related charges	0.3	
Acquired in-process research & development	4.8	
Total operating expenses	92.2	83.7
Operating loss	(15.4)	(3.7)
Other Income:		
Interest income	2.3	4.6
Interest expense	(2.8)	(3.4)
Other expense	(0.5)	(0.7)
Total other (loss) income, net.	(1.0)	0.5
Loss before income taxes	(16.4)	(3.2)
Benefit for income taxes	(3.4)	(1.2)
Net loss	(13.0)%	(2.0)%

Total Revenues

Concord s total revenues are generated from license revenues and service revenues.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
License Revenues	$ 11,570	11.8%	$ 10,350
Service Revenues	17,541	30.0%	13,495
Total Revenues	$ 29,111	22.1%	$ 23,845
Percent of Total Revenues			
License Revenues	39.7%		43.4%
Service Revenues	60.3%		56.6%

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License Revenues

Concord s license revenues are derived from the licensing of software products.

	Three Months Ended		
	March 31,		March 31,
(in thousands)	2005	Percent Change	2004
License Revenues	$ 11,570	11.8%	$ 10,350
Percent of Total Revenues			
License Revenues	39.7%		43.4%

First Quarter 2005 Compared to First Quarter 2004:

The increase in license revenues was driven by the revenue generated by Spectrum which was offset by lower sales of Concord s core products, the eHealth Suite. After the close of this transaction on February 22, Spectrum contributed $2.0 million in license revenues. This was partially offset by a decrease in Concord license revenues due to lower sales by our indirect channel in Europe and Asia.

The continuing decrease of license revenues as a percent of total revenues was the result of a significant increase in service revenues combined with a decrease of the license revenues. As we continue to service our existing customers and continue to add to our customer base, we would expect service revenues as a percent of total revenue to stabilize.

There were no material price increases for products during the first three months of 2005 and inflation did not have a significant impact on our revenues or income during the first three months of 2005.

New *e*Health and Spectrum customer accounts

License revenues are partially dependent on our ability to sell to new *e*Health and Spectrum customer accounts. New *e*Health customer accounts represent the number of new customer accounts that purchase software from the Concord *e*Health® Suite of products. New Spectrum customer accounts represent new customers that purchase Spectrum products. NetViz new customer accounts are excluded from this count as these products are not considered key drivers of our primary business. Due to the nature of netViz® products, customers that purchase netViz® products do not generate significant revenue for the initial or subsequent purchase.

	Three Months Ended		
	March 31,		March 31,
(in thousands)	2005	Percent Change	2004
New *e*Health Customer Accounts	16	-27.3%	22
New Spectrum Customer Accounts	3	N/A	
Percent of Total Revenues			
New *e*Health Customer Accounts	9.5%		11.7%
New Spectrum Customer Accounts	8.0%		

First Quarter 2005 Compared to First Quarter 2004:

The number of sales to new *e*Health customer accounts decreased due to continued focus on existing customers by our salesforce. Internal initiatives, implemented in the third quarter of 2004, such as targeted marketing programs and specific sales incentives, which were successful in the second half of 2004, did not have a demonstrable impact on the number of new eHealth customers in the quarter ending March 31, 2005.

Transactions over $100,000

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License revenues can also be dependent on the number of transactions over $100,000 that we are able to close during the period.

	Three Months Ended		
(number of transactions)	March 31, 2005	Percent Change	March 31, 2003
*e*Health transactions greater than $100K	33	-5.7%	35
Spectrum transactions greater than $100k	6	N/A	N/A

First Quarter 2005 Compared to First Quarter 2004:

The number of transactions greater than $100,000 recorded in the three months ended March 31, 2005 is comparable to the number of transactions recorded in the three months ended March 31, 2004. Many of the transactions greater than $100,000 were with domestic telecommunications providers in the three months ended March 31, 2005 versus mainly enterprise transactions in the three months ended March 31, 2004. Spectrum transactions greater than $100,000 were mainly with enterprise customer accounts.

Service Revenues

Concord s service revenues consist of fees for maintenance, training and professional services.

	Three Months Ended		
(in thousands)	March 31, 2005	Percent Change	March 31, 2004
Service Revenues	$ 17,541	30.0%	$ 13,495
Percent of Total Revenues			
Service Revenues	60.3%		56.6%

First Quarter 2005 Compared to First Quarter 2004:

The increase in service revenues in both absolute dollars and percentage of revenues was primarily due to the acquisition of Spectrum, which contributed an additional $2.6 million in service revenues. Maintenance revenues from Concord customers contributed mainly to the balance of the increase in service revenues.

Maintenance revenues represent fees earned by granting our customers rights to technical support, software product upgrades and maintenance patches during the support period, which is usually one year. The majority of our license customers purchase maintenance upon the initial licensing of our software. In addition, the majority of these customers renew their maintenance agreements annually. An increase in the number of the Company s customers and the resulting demand for these services further helped drive the increase in service revenues

Direct and Indirect Revenues

Concord markets its products in the United States primarily through a direct sales force. Internationally, Concord markets primarily through indirect channels, which include channel partners and other resellers.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Direct	$ 20,529	50.7%	$ 13,618
Indirect	8,582	-16.1%	10,227
Total Revenues	$ 29,111	22.1%	$ 23,845
Percent of Total Revenues			
Direct	70.5%		57.1%
Indirect	29.5%		42.9%

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First Quarter 2005 Compared to First Quarter 2004:

The increase in direct sales in both absolute dollars and percentage of revenue is due to the acquisition of Spectrum and the improved activity from the domestic and international sales force. Direct sales by Spectrum totaled approximately $4.5 million; most of the sales of this business unit are done through a direct sales force. The rest of the increase is driven by Concord sales force, which successfully sold to both large telecommunication providers and enterprises in the United States. Most of the decrease in indirect sales of eHealth products is due to lower sales in Europe and Asia.

Segment Revenues

Concord s reportable segments are determined by reporting units: Concord and Spectrum. Reportable segments are defined as a component of an enterprise whose operating results are regularly reviewed by the enterprise s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Concord	24,571	3.0%	23,845
Spectrum	4,540	N/A	
Total Revenues	$ 29,111	22.1%	$ 23,845
Percent of Total Revenues			
Concord	84.4%		100.0%
Spectrum	15.6%		

First Quarter 2005 Compared to First Quarter 2004:

Following the acquisition of Aprisma, since then renamed the Spectrum Business Unit, in February 2005, Concord now determines that it has 2 segments: Concord, which includes the revenue generated by Concord s core product, the eHealth Suite of software and Spectrum, which includes the revenues of Spectrum products.

International Revenues

Concord has fifteen international subsidiaries and three international branch offices. Concord has customers in 63 countries.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
United Kingdom.	$ 3,453	109.4%	$ 1,649
Europe (excluding the U.K)	4,429	(2.5%)	4,543
Rest of the World	4,557	37.6%	3,311

Total	$ 12,439	30.9%	$	9,503
Percent of Total Revenues				
United Kingdom	11.9%			6.9%

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	Three Months Ended		
(in thousands)	March 31, 2005	Percent Change	March 31, 2004
Europe (excluding the U.K. and Germany)	15.2%		19.1%
Rest of the World	15.7%		-13.9%

First Quarter 2005 Compared to First Quarter 2004:

The increase in international revenues in both absolute dollars and percentage of revenues for the three months ended March 31, 2005 was due mainly to strong demand in the UK; most of the increase in that country was driven by strong direct sales of Spectrum products. The sale of Spectrum products accounted for approximately $2.5 million or 86% of the increase in international revenues. The balance of the increase in revenues was driven by an increased demand for Concord products in Asia and Latin America.

eHealth Revenues Recognized in Connection With Third Party Software

Concord bundles third party software in some of its products when it determines that bundling such software is cost-effective or increases the effectiveness of Concord s products. In some instances, Concord has determined that it can be cost prohibitive to develop such software applications, especially if such applications are already available in the marketplace. In addition, bundling third party software allows Concord, in certain instances, to accelerate the delivery of increased functionality within a short timeframe.

Revenues generated by Concord products that included third party software were:

	Three Months Ended		
(in thousands)	March 31, 2005	Percent Change	March 31, 2004
Revenues	$ 2,413	-12.6	$ 2,759
Percent of Total Revenues			
Revenues	8.4%		11.6%

First Quarter 2005 Compared to First Quarter 2004:

The decrease of revenues from third party software in both absolute dollars and percentage of revenues was mostly driven by decreased demand for eHealth products which include the Oracle® database software

Cost of Revenues

Cost of revenues includes cost of license revenues and cost of service revenues.

	Three Months Ended		
(in thousands)	March 31, 2005	Percent Change	March 31, 2004

Cost of License Revenues	$ 1,674	103.6%	$ 822
Cost of Service Revenues	5,077	28.6%	3,949
Total Cost of Revenues	6,751	41.5%	$ 4,771
Percent of Total Revenues			
Cost of License Revenues	5.8%		3.4%
Cost of Service Revenues	17.4%		16.6%

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Cost of License Revenues

Cost of license revenues includes expenses associated with royalty fees, production, fulfillment of orders, product documentation and amortization expense associated with the intangible assets. Royalty costs are composed of third party software costs.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Cost of License Revenue	$ 1,674	103.6%	$ 822
Percent of Total Revenues			
Cost of License Revenues	5.8%		3.4%

First Quarter 2005 Compared to First Quarter 2004:

The increase in cost of license revenues in both absolute dollars and percentage of revenues was mainly driven by the acquisition of Spectrum, contributing $0.6 million, or 79% of the variance. Most of the Spectrum cost of license revenues consist of technology amortization fees. Concord s royalty costs and fulfillment expenses contributed 9% and 4%, respectively, to the variance.

eHealth Expenses Recognized in Connection With Third Party Software

Royalty costs are comprised of third party software costs. The Company bundles third party software in some of its products when it determines that bundling such software is cost-effective or increases the effectiveness of Concord s products. Costs associated with revenues generated by Concord products that included third party software were:

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Expenses	$ 511	13.8%	$ 449
Percent of Total Revenues			
Expenses	1.8%		1.9%

First Quarter 2005 Compared to First Quarter 2004:

Third party maintenance charges are usually based on the number of sold units. As the Company s installed base has grown, the number of its products under maintenance, which includes third party software, has also increased.

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Cost of Service Revenues

Cost of service revenues consists of the personnel costs associated with providing customer support in connection with maintenance, training and professional service contracts.

	Three Months Ended		
	March 31,		March 31,
(in thousands)	2005	Percent Change	2004
Cost of Service Revenues	$ 5,077	28.6%	$ 3,949
Percent of Total Revenues			
Cost of Service Revenues	17.4%		16.6%

First Quarter 2005 Compared to First Quarter 2004:

The increase of cost of service revenues was driven by an increase in eHealth employee costs for professional services, an increase in the use of consultants hired to deliver professional services to our eHealth customer and the additional costs related to the Spectrum technical support organization. These factors contributed approximately 58%, 8% and 33%, respectively, to the increase.

Gross Profit

Total gross profit consists of gross profit from license revenues and gross profit from service revenues.

	Three Months Ended		
	March 31,		March 31,
(in thousands)	2005	Percent Change	2004
Gross Profit	$ 22,360	17.2%	$ 19,074
Percent of Total Revenues			
Gross Profit	76.8%		80.0%

First Quarter 2005 Compared to First Quarter 2004:

The decrease of gross profit in percentage of revenues was mainly driven by an increase of service costs. The increase of gross profit in absolute dollars is the increase of revenue related to the Spectrum acquisition.

Research and Development Expenses

Research and development expenses consist primarily of personnel costs associated with software development.

	Three Months Ended	
	March 31,	March 31,

(in thousands)	2005	Percent Change	2004
Research and Development	$ 7,162	23.7%	$ 5,789
Percent of Total Revenues			
Research and Development	24.6%		24.3%

The increase in research and development expense in absolute dollars and percent of revenue is driven by the acquisition of the Spectrum Business Unit and an increased investment in offshore development. These factors contributed 77% and 21%, respectively, to the increase.

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Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, commissions to sales personnel and agents, travel, tradeshow participation, public relations, advertising and other promotional expenses.

	Three Months Ended		
(in thousands)	March 31, 2005	Percent Change	March 31, 2004
Sales and Marketing	$ 14,021	21.8%	$ 11,516
Percent of Total Revenues			
Sales and Marketing	48.2%		48.3%

First Quarter 2005 Compared to First Quarter 2004:

The increase of sales and marketing expenses was driven by the acquisition of the Spectrum Business Unit. This contributed 87% to the variance while Concord sales and marketing costs contributed to the balance of the increase. Sales and marketing expenses decreased slightly as a percentage of revenues due mainly to lower bonuses and commissions driven by lower license revenues.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries for financial, accounting, legal, investor relations, human resources, administrative and management personnel.

	Three Months Ended		
(in thousands)	March 31, 2005	Percent Change	March 31, 2004
General and Administrative	$ 4,183	58.3%	$ 2,643
Percent of Total Revenues			
General and Administrative	14.3%		11.1%

First Quarter 2005 Compared to First Quarter 2004:

The increase in general and administrative expenses in both absolute dollars and percentage of revenues was primarily attributed to the Spectrum Business Unit acquisition. Included in general and administrative expenses is $.6 million of amortization expense related to stock-based awards given to certain key employees of Spectrum and the expense related to payments due under the Aprisma s Equity Participation and Retention Plan. Without the acquisition, Concord s general and administrative expenses would have been relatively at the same level as the prior year.

Acquisition Related Charges

Acquisition related expenses consist primarily of audit fees related to the acquisition of Spectrum.

	Three Months Ended		
(in thousands)	Mar 31, 2005	Percent Change	Mar 31, 2004
Acquisition Related Charges	$ 100	N/A	$
Percent of Total Revenues			
Acquisition Related Charges	0.3%		

First Quarter 2005 Compared to First Quarter 2004:

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The increase in acquisition related expenses in both absolute dollars and percentage of revenues was due to the acquisition of Spectrum. These charges related to audit procedures performed on the Spectrum opening balance sheet by our independent auditors.

Acquired In-Process Research & Development Expenses

Acquired in-process research & development expenses relates to the SPECTRUM Version 8.0 acquired in the Aprisma acquisition. Based upon the status of ongoing research and development efforts related to Aprisma at the date of purchase and a review of the typical technology development cycle and standards for establishing technological feasibility of products, the Company identified SPECTRUM Version 8.0 as a project which represents development efforts in areas where the technological feasibility has not yet been established.

	Three Months Ended		
(in thousands)	**Mar 31, 2005**	**Percent Change**	**Mar 31, 2004**
Acquired in-process research & development expenses	$ 1,400	N/A	$
Percent of Total Revenues			
Acquired in-process research & development expenses	4.8%		0.0%

First Quarter 2005 Compared to First Quarter 2004:

The fair value of the SPECTRUM Version 8.0 project was charged to expense in the three months ended March 31, 2005.

Other Income, Net

Other income, net consists primarily of interest income, interest expense, foreign currency exchange gains (losses) and miscellaneous foreign taxes.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Interest Income	$ 673	-38.2%	$ 1,089
Interest Expense	(817)	-0.7%	(823)
Other Expense	(138)	-18.3%	(169)
Total Other Income, net	$ (282)	-390.7%	$ 97
Percent of Total Revenues			
Total Other (Loss) Income, net	(1.0)%		0.5%

First Quarter 2005 Compared to First Quarter 2004:

The decrease in interest income is due to the reduction of our investments following the Spectrum and Vitel acquisitions, for which Concord paid approximately $88.3 million. The purchase price was funded primarily by the proceeds received from the sale of certain of the Company s marketable securities investments.

Interest expense includes interest paid on the Company s 3.0% Senior Convertible Notes due 2023 (the Notes) issued in December 2003 and amortization of the issuance costs which primarily consist of investment banker, legal and other professional fees. Interest expense was $0.6 million and amortization expense was $0.2 million in the three months ended March 31, 2005. Issuance costs are being amortized over a five-year period to the first date holders of the Notes may require the Company to repurchase the outstanding Notes.

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Other expense relates to foreign currency transaction and translation gains or losses attributable to the U.S. dollar remaining stable or slightly weaker against certain foreign currencies

Benefit for Income Taxes

The provision for income taxes relates to federal, state and foreign taxes.

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Benefit for Income Taxes	$ (998)	238.3%	$ (295)
Percent of Total Revenues			
Benefit for Income Taxes	-3.4%		-1.2%

First Quarter 2005 Compared to First Quarter 2004:

Our effective tax rate was (21%) on a pre-tax loss of $4.8 million in the three months ended March 31, 2005 compared to (38%) on a pre-tax loss of $0.8 million in the three months ended March 31, 2004. The primary differences between the statutory federal income tax benefit of 34% and the reported rate of 21%, was a book charge relating to in-process research and development as well as foreign and state taxes.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	**March 31, 2005**	**Percent Change**	**December 31, 2004**
Working Capital	$ 38,601	-73.9%	$ 147,925
Cash, cash equivalents and marketable securities (net of restricted cash)	$ 68,900	-56.8%	$ 159,455

	Three Months Ended		
(in thousands)	**March 31, 2005**	**Percent Change**	**March 31, 2004**
Net cash provided by operating activities	$ (686)	-143.9%	$ 1,564
Net cash used in investing activities	$ (4,356)	-89.3%	$ (40,535)
Net cash provided by financing activities	$ 363	-39.2%	$ 597

Working Capital

Working capital decreased since December 31, 2004 primarily due to the cash expended to purchase Aprisma and Vitel in the three months ended March 31, 2005.

Cash, cash equivalents and marketable securities (net of restricted cash)

Cash and cash equivalents consist of highly liquid investments in time deposits held at major banks, commercial paper, United States government agency discount notes, money market mutual funds and other money market securities with original maturities of 90 days or less. Marketable securities include similar highly liquid investments. The decrease in cash, cash equivalents and marketable securities in the three months ended March 31, 2005 was primarily due to the cash used of $84.0 million and $4.3 million to purchase Aprisma and Vitel, respectively.

Cash provided by operating activities

Net cash used by operating activities was $0.7 million for the three months ended March 31, 2005 and cash provided by operating activities was $1.6 million for the three months ended March 31, 2004. Accounts receivable as of March 31, 2005 is consistent with the December 31, 2004 balance of $24.2 million. Within accounts receivable there was an increase of $5.9 million due to the acquisitions of Aprisma and Vitel. When the effect of the Aprisma and Vitel acquisitions are excluded, accounts receivable decreased $6.0 million from year end due to favorable collections. Average daily sales outstanding (DSO) for the quarter decreased to 60 days at March 31, 2005 compared to 76 days at December 31, 2004. DSO is calculated by dividing the period end accounts receivable by the quarterly revenue. DSO measures both the age, in terms of days, of our accounts receivable and the average time it takes to turn the receivable into cash. In order to ensure that DSO has a meaningful measurement in the quarter ended March 31, 2005, we included Aprisma s revenue generated from January 1, 2005 to March 31, 2005 , which totaled approximately $11.0 million. There are a number of factors affecting DSO, including our payment terms, collection ability and the timing of sales made during a quarter. Deferred revenue as of March 31, 2005 as compared to December 31, 2004 increased by $15.0 million, mainly due to the acquisitions of Vitel and Aprisma. When the affect of the two acquisitions are excluded, deferred revenue increased $3.1 million due mainly to the increase in the renewal of maintenance contracts.

Cash used for investing activities

Investing activities have consisted of the investments in marketable securities, acquisition of property and equipment, most notably computer and networking equipment to support the corporate infrastructure, and business acquisitions. The Company manages its market risk on its investment securities by selecting investment grade securities with the highest credit ratings and relatively short duration that trade in highly liquid markets. The negative cash flow of $4.4 million from investing activities in the first three months of fiscal 2005 primarily relates to the cash used to purchase Aprisma and Vitel net of the cash generated from the maturities and sale of marketable securities.

Cash provided by financing activities

Net cash provided by financing activities consisted of the issuance of common stock from the exercise of stock options.

Contractual Obligations

The following is a summary of our contractual obligations as of March 31, 2005:

(in thousands)	2005	2006	2007	2008	2009	Thereafter	Total
Facility and certain equipment leases	$ 4,373	$ 3,974	$ 2,612	$ 1,792	$ 1,396	$ 3,037	$ 17,184
Minimum royalties payments	500	608	565				1,673
Convertible notes				86,250			86,250
Interest payments on the Convertible Notes	1,947	2,588	2,588	2,588			9,711
Total commitments	$ 6,820	$ 7,170	$ 5,765	$ 90,630	$ 1,396	$ 3,037	$ 114,818

Concord leases its facilities and certain equipment under operating lease agreements extending through August 2007. Concord s remaining lease commitments for all leased facilities and equipment with an initial or remaining term of at least one-year total $17.2 million. Lease commitments of $10.7 million were assumed as a result of the Aprisma acquisition.

Concord has entered into several software license agreements for exclusive worldwide licenses to distribute or utilize certain patented computer software. Concord bundles third-party software in some of its products when it

determines that bundling such software is cost-effective or increases the effectiveness of Concord s products. The minimum royalty payment for these exclusive arrangements is $1.7 million for the remainder of 2005 through 2007.

On December 8, 2003, Concord raised $82.7 million, net of fees and commissions, following the issuance of convertible senior notes with a principal of $86.25 million. The Convertible Senior Notes mature in 2023 and bear interest of 3.0%, payable semi-annually in June and December of each year. Holders of the Convertible Senior Notes may elect to convert some or all of the outstanding Convertible Senior Notes upon certain events, including a change in control or if during a conversion period, the closing price of our stock exceeds $32.24, which is 120% of the conversion price ($26.87) for 20 trading days in a period of 30 trading days, which starts on the first business day of a quarter. If the threshold is met, then holders may convert their Convertible Senior Notes into our Common Stock at any time during the succeeding 90 days, beginning on the 30th trading day of the quarter. We may redeem some or all of the Convertible Senior Notes at any time on or after December 15, 2008. Holders have the right to require Concord to purchase all or a portion of their notes for cash on December 15, 2008, December 15, 2013, and December 15, 2018. If Concord elects to redeem on December 15, 2008, our contractual obligation for interest payments in 2008 would be reduced by approximately $0.1 million.

Under the terms of the indenture that governs the terms of the Convertible Senior Notes, the proposed merger with Computer Associates, Inc., if consummated, would constitute a designated event as more fully described in the indenture. Accordingly, Concord must give notice to holders of the Convertible Senior Notes at least 15 days prior to the date upon which the merger is expected to become effective and stockholders are entitled to consideration in connection therewith. Provided the merger occurs, Concord will also be required to execute a supplemental indenture with the trustee identified in the indenture providing that, in general, the Senior Convertible Notes will be convertible into the merger consideration which each holder would have been entitled to receive upon the merger had such holder s notes been converted into common stock of Concord immediately prior to the merger. Moreover, if the merger is consummated, the indenture requires Concord to provide notice of such consummation to each holder of the Senior Convertible Notes no later than the earlier of 15 business days or 20 calendar days after the date of such consummation. For a period of 20 business days after such additional notice, each holder of the Senior Convertible Notes will have the right, at the holder s option, to (i) require Concord to purchase all or a portion of such holder s outstanding notes, as directed by such holder in accordance with the terms of the indenture and/or (ii) surrender the notes for conversion into the applicable amount of merger consideration. The indenture further provides that, in the event that Concord consummates the merger, then the Senior Convertible Notes may be surrendered for conversion at any time from and after the date which is 15 calendar days prior to the date announced by Concord as the anticipated effective time of such transaction until 15 calendar days after the actual effective date of such transaction. As of March 31, 2005, Concord s stock price had not exceeded 120% of the conversion price on any trading day since December 8, 2003 and no other events had occurred which would make the Convertible Senior Notes convertible. Holders may convert the notes into shares of our common stock at an initial conversion rate of 37.2148 shares of common stock per $1,000 principal amount of notes (representing a conversion price of approximately $26.87 per share which converts into 3,209,776 shares of common stock), subject to adjustment. We may redeem some or all of the convertible senior notes on or after December 15, 2008.

As of March 31, 2005, Concord had available for U.S. federal income tax purposes net operating loss carry forwards of approximately $29.9 million, which expire at various dates through 2024. In addition, as of March 31, 2005, Concord had U.S. federal research and development tax credit carry forwards of approximately $2.8 million, which expire at various dates through 2022. Under current tax law, the utilization of net operating loss and research and development tax credit carry forwards may be subject to annual limitations in the event of certain changes in ownership. Pursuant to the Tax Reform Act of 1986, the utilization of net operating loss carry forwards for tax purposes may be subject to an annual limitation if a cumulative change of ownership of more than 50% occurs over a three-year period.

As of March 31, 2005, Concord s principal sources of liquidity included cash, cash equivalents, and marketable securities. Concord believes that its current cash, cash equivalents, marketable securities and cash provided by future operations will be sufficient to meet its working capital and anticipated capital expenditure requirements for at least the next 12 months. Although operating activities may provide cash in certain periods, to the extent Concord experiences growth in the future, its operating and investing activities may require additional cash. Consequently, any such future growth may require Concord to obtain additional equity or debt financing.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 123, SFAS 123R *Share-Based Payment.* SFAS No. 123R requires all companies to measure compensation costs for all share-based payments, including stock options, at fair value and expense such payments over the service period. SFAS No. 123R specifies that companies must use an option-pricing model to estimate fair value, although it does not specifically require the use of a particular model. On April 14, 2005 the SEC announced that it would permit registrants additional time to implement the requirements of SFAS No. 123R. The SEC will permit companies to implement SFAS 123R at the beginning of their next fiscal year, and therefore, will be effective for the Company beginning with the first quarter of 2006. Under the provisions of FAS 123R, companies can select from three transition methods for the implementation of this standard. The modified prospective method would require all new awards that are granted after the effective date to use the provisions of FAS 123R. Under this method, for vested awards that are outstanding on the effective date of FAS 123R, a company would not have to record any additional compensation expense. For unvested awards that are outstanding on the effective date of FAS 123R and were previously included as part of pro forma net income and earnings per share under the provisions of FAS 123 would be charged to expense over the remaining vesting period, without any changes in measurement. The second alternative is a variation of the modified prospective method, which would allow companies to restate earlier interim periods in the year that FAS 123R is adopted using the applicable FAS 123 pro forma amounts. Under the third alternative, the modified retrospective method, companies would apply the modified prospective method and also restate their prior financial statements to include the amounts that were previously recognized in their pro forma disclosures under the original provisions of FAS 123. Currently, the Company discloses the estimated effect on net income of these share-based payments in the footnotes to the financial statements and the estimated fair value of the share-based payments has historically been determined using the Black-Scholes pricing model. The Company has not determined which option-pricing model or transition method to use upon implementation of this standard and has not yet completed its evaluation of the impact of SFAS No. 123R, but expects the adoption to have a material effect on its consolidated financial statements.

The FASB has issued two FASB Staff Positions (FSP) that provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 that was signed into law on October 22, 2004. The American Jobs Creation Act of 2004 allows for temporary dividend deductions equal to 85% of cash dividends received during the tax year from controlled foreign corporations and invested in the United States. The result of this legislation could affect how companies report their deferred income tax balances. The first FSP is FSP SFAS 109-1 and concludes that the tax relief from this legislation should be accounted for as a special deduction instead of a tax rate reduction. The second FSP is FSP SFAS 109-2 and gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earning for purposes of applying FASB Statement No. 109, *Accounting for Income Taxes*. The Company has not yet completed its evaluation of the provisions of the American Jobs Creation Act of 2004. The repatriation of foreign earnings would not have a material effect on the Company s consolidated financial statements. The Company does not anticipate the repatriation of foreign earnings to the United States in the future.

FACTORS THAT COULD AFFECT FUTURE RESULTS

References in these risk factors to we, our, the Company, Concord, and us refer to Concord Communications, Inc., a Massachusetts corporation. Any investment in our common stock involves a high degree of risk. If any of the following risks actually occur, our business, results of operations and financial condition would likely suffer.

This document contains forward-looking statements. Any statements contained in this document that do not describe historical facts are forward-looking statements. Concord makes such forward-looking statements under the provisions of the safe harbor provided in Section 21E of the Securities Exchange Act of 1934. In particular, statements contained in Management s Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts (including, but not limited to, statements concerning: the plans and objectives of management; the proposed consummation of a merger with Computer Associates, Inc.; increases in absolute dollars or decreases as a percentage of revenues in sales and marketing, research and development, customer support and service, and general and administrative expenses; expectations regarding increased competition and Concord s ability to compete successfully; sustenance of revenue growth both domestically and internationally; the size, scope and description of Concord s target customer market; future product development, including but not limited to anticipated expense levels to fund product development, acquisitions and the integration of acquired companies; and our expected liquidity and capital resources) constitute forward-looking statements. Forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties. Concord s actual future results may differ significantly from those stated in any forward-looking statements. Factors that may cause such differences include, but are not limited to, the factors discussed below.

Our future operating results are uncertain.

We offer a Business Service Management (BSM) software solution to enterprise customers, managed service providers, and telecommunication carriers. This software, the *e*Health® Suite, maps information technology (IT) services to business needs, measures the actual end user experience, and manages application, system and network infrastructures. We have a limited operating history in the BSM market upon which we can evaluate our business. This market is highly competitive, rapidly evolving, and targeted by many competitors with longer operating histories in the BSM market and greater resources. Our limited operating history, intense competition in the market, and an uncertain economic climate make the accurate prediction of future results of operations difficult or impossible.

In addition to marketing and selling the *e*Health® Suite in the BSM market, we acquired Aprisma in February 2005, a privately held software company, that also provides a software solution for the BSM market. Aprisma s SPECTRUM® software manages the health and performance of networks and the business services that rely on them, including performing root cause analysis, event correlation, service modeling, and topological discovery and display. While we intend to provide a solution for the BSM market that maximizes the functionality of both the *e*Health® Suite and SPECTRUM® software, our limited operating history marketing and selling this integrated solution, the risks associated with integrating both the companies and the software products, and intense competition in the market make it difficult to predict our future results of operations.

In addition to sales of our *e*Health® Suite, we will continue to sell netViz® products, which enable customers to visualize business processes and map relationships within the supporting technology infrastructure through data-driven icons. On January 5, 2005, Concord acquired Vitel, a provider of voice performance management solutions, which enables enterprises and service providers to manage the performance of next-generation IP and legacy voice network and messaging systems, including voice mail, from multiple vendors. We have a limited operating history in the product markets of netViz and Vitel, which makes the accurate prediction of future results of operations difficult or impossible.

Our future operating results must be considered in light of these factors.

Our acquisitions of netViz Corporation and Vitel Software, Inc. presents many risks, and we may not realize the financial and strategic goals we anticipate at the time of these acquisitions.

On July 15, 2003, we acquired netViz Corporation and on January 5, 2005, we acquired Vitel Software, Inc. The acquisition of these companies provides us the opportunities to extend our capabilities in the data driven icon and voice network performance and management markets. However, we may fail to:

- successfully integrate the acquired products;
- successfully integrate personnel and management structures;
- provide products or services that meet the demands of these markets;
- develop an effective business strategy for these markets;

retain key customers;

retain key employees;

effectively control costs associated with the integration (including research and development costs);

meet expected timelines for product development and commercialization; and

account for exposure to liabilities of the acquired companies that were not known or accurately evaluated by us prior to consummating the acquisitions.

Our acquisition of Aprisma Management Technologies, Inc. presents many risks, and we may not realize the financial and strategic goals we anticipate at the time of the acquisition.

On February 22, 2005, we acquired Aprisma Management Technologies, Inc. The acquisition of Aprisma will enable us to expand our ability to deliver a new generation of intelligent BSM software that maps information technology services to business processes, measures the actual end-user experience, and manages the entire IT infrastructure. The achievement of our financial and strategic goals from this acquisition depends on the successful integration of the two companies and our failure to successfully integrate could adversely affect our business. We must integrate our operations, people, and technology. However, we may fail to:

successfully integrate the acquired products;

implement a successful sales strategy for the integrated company;

attract and retain key distribution partners;

successfully integrate personnel and management structures;

provide products or services that meet the demands of the market;

gain expected efficiencies and other financial benefits from the integrated company;

retain key employees;

effectively control costs associated with the integration of these companies (including research and development costs);

meet expected timelines for product development and commercialization; and

account for exposure to liabilities of Aprisma that were not known or accurately evaluated by us prior to consummating the acquisition.

The proposed merger of Concord and Computer Associates includes various risks

As to the proposed merger between Concord and Computer Associates, various factors could cause actual results to differ materially from the expected timetable for completing the transaction, future financial and operating results, benefits and synergies of the transaction, future opportunities for the combined company and products and any other forward-looking statements regarding Computer Associates or Concord s future expectations, beliefs goals or prospects made by both parties. These factors include the ability to consummate the transaction, the ability of Computer Associates to successfully integrate Concord s operations and employees, the ability to realize anticipated synergies; the emergence of new competitive initiatives resulting from rapid technological advances or changes in pricing in the market, business conditions and volatility and uncertainty in the markets that Computer Associates and Concord serve, and the other factors described in the Annual Report on Form 10-K for Computer Associates most recently completed fiscal year and Computer Associates other filings with the SEC which are available at www.sec.gov.

We cannot ensure that our revenues will grow or that we will again be profitable.

We have expended considerable resources to the research and development of new technologies and new or improved product features that have enabled us to retain existing customers and penetrate new markets both in the United States and internationally. Despite this expenditure of resources, we cannot ensure that we can generate revenue growth on a quarterly or annual basis, or that we can achieve or sustain any revenue growth in the future.

In an effort to again achieve and maintain profitability and adequately fund research and development, we continue to work to reduce our operating expenses while maintaining funding for product development. However, competition in the marketplace may require us to increase our operating expenses in the future in order to:

- fund higher levels of research and development;
- increase our sales and marketing efforts;
- increase sales staff and sales training programs;
- develop new distribution channels;
- broaden our customer support capabilities; and
- respond to unforeseeable economic or business circumstances.

To the extent that increases in our operating expenses precede or are not followed by increased revenues, our goal of attaining profitability will be at risk.

Our operating results may fluctuate.

We are likely to experience significant fluctuations in our operating results caused by many factors, including, but not limited to:

- changes in the demand for our products by customers or groups of customers;
- the timing, composition, and size of orders from our customers, including the tendency for significant bookings to occur in the final two weeks of each fiscal quarter (including the fiscal year end);
- difficulties penetrating new markets for our products;
- costs associated with the integration of acquired companies and/or new technologies;
- our customers spending patterns and budgetary resources for our products;
- geopolitical conditions in the world;
- the success of our new customer generation activities;
- introductions or enhancements of products, or delays in the introductions or enhancements of products, by us or our competitors;
- changes in our pricing policies or those of our competitors;
- changes in the distribution channels through which our products are sold;

our success in anticipating and effectively adapting to developing markets and rapidly changing technologies;

our success in attracting, retaining, and motivating qualified personnel;

the publication of opinions about us and our products, or our competitors and their products, by industry analysts or others;

changes in general economic conditions; and

changes in accounting rules.

Though our service revenues have been increasing as a percentage of total revenues, we do not have a significant ongoing revenue stream that may mitigate quarterly fluctuations in operating results.

Due to all of the foregoing factors, we believe that our quarterly operating results are likely to vary significantly in the future. Therefore, in some future quarter our results of operations may fall below the expectations of securities analysts and investors. In such event, the trading price of our common stock will likely suffer.

We have increased our leverage as a result of the sale of the 3.0% Convertible Senior Notes due 2023.

In connection with the sale of the Notes, we have incurred $86.25 million of indebtedness. As a result of this indebtedness, our interest payment obligations have increased. The degree to which we are now leveraged could adversely affect our ability to obtain further financing for working capital, acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. Our ability to meet our debt service obligations will be dependent upon our future performance, which may be subject to the financial, business and other factors affecting our operations, many of which are beyond our control.

Our debt service obligations may adversely affect our cash flow.

A higher level of indebtedness increases the risk that we may default on our debt obligations. We cannot assure that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. If we are unable to generate sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our research and development programs. The level of our indebtedness among other things, could:

make it difficult for us to make payments on the Notes;

make it difficult for us to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and

make us more vulnerable in the event of a downturn in our business.

Our success is dependent upon sales to telecommunication carriers and managed service providers.

We derive and likely will continue to derive a significant portion of our revenues from the sales of our products to telecommunication carriers and managed service providers. We expect that revenue from telecommunication carriers and managed service providers will be 40% to 50% of total revenues. Despite our expectations, these markets have been negatively affected by a general weakness in capital spending; making future results difficult to predict. The volume of sales of our products and services to telecommunication carriers and managed service providers may increase at a slower rate than we expect or our sales to these customers may decrease.

The market for business service management software is an emerging market and if we fail to assess it accurately, our business could suffer.

The market is in an early stage of development. Targeting this market is central to the development and marketing of our products, but this market is emerging, and it is difficult to assess:

- the size of the market;
- the appropriate features and prices for products to address this market;
- the optimal distribution strategy; and
- the market that will develop and the impact of large competitors within the market.

Presently, this market is very competitive and we are in direct competition with larger companies that have substantially greater resources to fund the development of competitive products and the creation and maintenance of direct and indirect sales channels. The rapidly evolving BSM market and the continued presence of larger companies in this market may impact our ability to retain or increase our market share.

Increased royalty costs and our reliance on third party technology partners could adversely impact our business.

We license from third parties, generally on a non-exclusive basis, certain technologies used in our products. The incorporation of third party technology is an important component of our product development and an increase in royalty costs associated with our distribution of third party technologies could impact our business. Additionally, the termination of any such licenses, or the failure of third-party licensors to adequately maintain or update their products, could result in delay in shipment of certain of our products while we seek to implement technology offered by alternative sources, and any required replacement licenses and associated royalties could prove costly and impact our business.

While it may be necessary or desirable in the future to obtain other licenses relating to one or more of our products or relating to current or future technologies, we cannot ensure that we will be successful in doing so on commercially reasonable terms or at all.

The markets for our products are intensely competitive and rapidly evolving and competition could harm our ability to sell products and services and could reduce our revenues.

We sell software in the BSM market to help companies effectively manage their applications, systems, and networks. We offer availability and performance products to manage the IT infrastructure, and therefore compete both with companies that market comprehensive products to manage the IT infrastructure and with companies that market products for particular segments of the IT infrastructure (e.g., applications and networks). The markets for our products are intensely competitive and rapidly evolving. Our competitors include:

- application performance software vendors;
- fault management software vendors;
- IT visualization software vendors;
- application availability and performance management software vendors;
- report toolset niche vendors;

enterprise management software, framework and platform providers;

software vendors providing service assurance for the wireless market;

- large, well-established management framework companies that have developed network or application management platforms;
- developers of network element management solutions;
- probe vendors;
- telecommunication vendors;
- system agent vendors; and
- vendors that provide, as a service, some of the functionality of our products.

We expect competition to persist, increase, and intensify in the future, which will likely result in price competition within our market. If we do not provide products that achieve success in our market in the short term, or lower our prices to compete more effectively, we could suffer an insurmountable loss in market share and brand name acceptance. We cannot ensure that we will compete effectively with current and future competitors.

Market acceptance of our *e*Health® products and services is critical to our success.

We currently derive significant revenues from the sale of *e*Health® Suite products and services, and we expect that revenues from these products and services will continue to account for a significant portion of our revenues in the foreseeable future. Broad market acceptance of these products and services is critical to our future success. We cannot ensure that market acceptance of our *e*Health® Suite products and services will increase or even remain at current levels. Factors that may affect the market acceptance of our products and services include:

- the availability and price of competing integrated solutions, products and technologies;
- our ability to continue to provide product functionality and related services to meet the needs of our market;
- our ability to continue research and development at levels necessary for the growth of our business;
- the demand for integrated, as opposed to stand-alone, solutions; and
- the success of our sales efforts and those of our marketing partners.

Moreover, if demand for integrated fault and performance management software products and services increases, we anticipate that our competitors will introduce additional competitive products and services and new competitors could enter our market and offer alternative products and services resulting in decreased market acceptance of our products and services.

Market acceptance of SPECTRUM® products and services is critical to our success.

As a result of the acquisition of Aprisma on February 22, 2005 we will market and sell SPECTRUM® products and services, from which we expect to derive significant revenue. Broad market acceptance of these products and services is critical to our future success. We cannot ensure that market acceptance of SPECTRUM® products and services will increase or even remain at current levels. Factors that may affect the market acceptance of our products and services include:

- the availability and price of competing integrated solutions, products and technologies;

our ability to continue to provide product functionality and related services to meet the needs of our market;

our ability to continue research and development at levels necessary for the growth of our business; and

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the success of our sales efforts and those of our marketing partners.

Moreover, if demand increases for software products that provide root cause analysis, event correlation, service modeling, and topological discovery and display, we anticipate that our competitors will introduce additional competitive products and services and new competitors could enter our market and offer alternative products and services resulting in decreased market acceptance of our products and services.

Market acceptance of our netViz® products is critical to our success.

We market and sell netViz products and services. Our revenue is derived primarily from the sale of *e*Health Suite products and services, but revenue derived from the sale of netViz products and services constitutes an important component of our quarterly and annual results. Market acceptance of the netViz products and services is critical to our future success. We cannot ensure that market acceptance of netViz products and services will increase or even remain at current levels. Factors that may affect the market acceptance of netViz products and services include:

the availability and price of competitive products and services;

the ability of others to develop products and services that meet the needs of the market;

our ability to continue to provide product functionality and related services to meet the needs of our market;

our ability to continue research and development at levels necessary for the growth of our business;

the demand for data-driven visualization software; and

the success of our sales efforts and those of our channel partners.

Moreover, if demand for data-driven visualization products increases, we anticipate increased competition in the market from existing and new competitors that could enter our market and offer alternative products resulting in decreased market acceptance of our products.

We may need future capital funding which may be unavailable on favorable terms, or at all.

We plan to continue to expend substantial funds on the continued development, marketing, and sale of our products. We have approximately $68.9 million in short term investments (cash, cash equivalents and marketable securities), excluding restricted cash totaling $0.6 million as of March 31, 2005. However, we cannot ensure that our existing capital resources and any funds that may be generated from future operations together will be sufficient to finance our future operations or that other sources of funding will be available on terms acceptable to us, if at all. In addition, future sales of substantial amounts of our securities in the public market could adversely affect prevailing market prices and could impair our future ability to raise capital through the sale of our securities.

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We must introduce product enhancements and new products on a timely basis in order to remain competitive.

Because of rapid technological change in the software industry, potential changes in the architecture of the IT infrastructure, changes in the software markets in which our product and services are sold, and changes in industry standards, the market acceptance of updated versions of our products is difficult to estimate. We cannot ensure that:

- we will successfully develop and market enhancements to our products or successfully develop new products that respond to technological changes, evolving industry standards, or customer requirements;
- we will not experience difficulties that could delay or prevent the successful development, introduction, and sale of enhancements or new products; or
- enhancements or new products will adequately address the requirements of the marketplace and achieve market acceptance.

The need for our products may decrease if manufacturers incorporate our product features into their product offerings.

Our products manage the performance and availability of computer applications, systems, and networks. Presently, manufacturers of both hardware and software have not implemented these management functions into their products in any significant manner. These products typically include, but are not limited to, operating systems, workstations, network devices, and software. If manufacturers begin to incorporate these management functions into their products it may decrease the value of our products and have a substantial impact on our business.

Current geopolitical instability and the continuing threat of domestic and international terrorist attacks may adversely impact our revenues.

International tensions, exacerbated by the war in Iraq and the war against global terrorism, contribute to an uncertain political and economic climate, both in the United States and globally, which may affect our ability to generate revenue on a predictable basis. As we sell products both in the United States and internationally, the threat of future terrorist attacks may adversely affect our business.

An adverse impact on our outsourcing activities may affect our business.

We currently outsource, on a limited basis, development and testing of certain software products to locations in Europe and Asia. Our efforts to outsource development and testing of software may be adversely affected by various factors, including: geopolitical instability, political conditions in countries where our development and testing activities occur, increased costs associated with outsourcing, relationships with independent contractors performing such product development and testing, and the enforceability of legal arrangements by which we protect our intellectual property rights in connection with these activities. The occurrence of any event that would adversely affect our outsourcing of development and testing of software may have an impact on our business.

Our common stock price could experience significant volatility.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations in response to:

- variations in results of operations;
- announcements of technological innovations or new products by us or our competitors;

changes in financial estimates by securities analysts;

announcements of results of operations by other companies;

announcements by government or other agencies regarding the economic health of the United States and the rest of the world;

announcements relating to financial improprieties by public companies; or

other events or factors.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of our operating results in a particular quarter to meet market expectations may adversely affect the market price of our common stock leading to an increased risk of securities class action litigation. Such litigation could result in substantial costs and a diversion of our attention and resources.

Our industry is subject to rapid technological change. Our failure to maintain standard protocols could affect our sales.

The software industry is characterized by:

rapid technological change;

frequent introductions of new products;

changes in customer demands; and

evolving industry standards.

The introduction of products embodying new technologies and the emergence of new industry standards can render existing products and integrated product solutions obsolete and unmarketable. While we actively work to develop products that operate with standard protocols, any change in industry standards or the emergence of new network technologies could affect the compatibility of our products, which in turn could affect the demand for, or the pricing of, our products and services.

We rely on strategic partners and other evolving distribution channels who may not be able to market or sell our products and services effectively.

Our distribution strategy is to develop multiple distribution channels, including sales through:

strategic marketing partners;

value added resellers;

service providers

system integrators;

telecommunication carriers;

original equipment manufacturers; and

independent software vendors and international distributors.

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We have focused on identifying and developing our key distribution partners worldwide to maximize the success of our indirect sales. Our success will depend in large part on our development of these distribution relationships and on the performance and success of other third parties that distribute our products and services, particularly telecommunication carriers and other network service providers. We sell our products and services in the United States through both direct sales to customers and indirect sales to customers through our channel partners. Outside the United States, we sell our products and services primarily through indirect sales via our channel partners, but direct sales to customers have been increasing as we have expanded our sales personnel in our markets. Our international channel partners are located in Europe, the Middle East, Africa, Asia, and North and South America and are subject to local laws, regulations, and customs that may make it difficult to accurately assess the potential revenues that can be generated from a certain market. Our success depends upon our ability to attract and retain valuable channel partners and to accurately assess the size and vitality of the markets in which our products and services are sold. While we have implemented policies and procedures to achieve this, we cannot predict the extent to which we are able to attract and retain financially stable, motivated channel partners. Additionally, our channel partners may not be successful in marketing and selling our products and services. We may:

- fail to attract important and effective channel partners;
- fail to penetrate our targeted market segments through the use of channel partners; or
- lose any of our channel partners as a result of competitive products and services offered by other companies, products and services developed internally by these channel partners, their financial insolvency or otherwise.

We may fail to manage successfully the growth of our business.

We have experienced employee turnover in our sales and operations personnel. Our products and services have become increasingly complex, and our distribution channels are being developed and expanded. The rapid evolution of our markets and the increasing complexity of our products and services have placed, and are likely to continue to place, significant strains on our administrative, operational, and financial resources and increase demands on our internal systems, procedures, and controls that may impact our ability to grow our business.

Our success depends on our retention of key personnel and we may be unable to recruit, integrate and retain the personnel we need.

Our performance depends substantially on the performance of our key technical, senior management, and sales and marketing personnel. We may lose the services of any of such persons. We experience intense competition for such personnel and are constantly exploring new avenues for attracting and retaining key personnel. However, we cannot ensure that we will successfully attract, assimilate, or retain highly qualified technical, managerial or sales and marketing personnel in the future.

Our failure to continue to expand into international markets could harm our business.

We intend to continue to expand our operations outside of the United States and enter additional international markets, primarily through the continued establishment and maintenance of channel partner arrangements. As mentioned above, we have concentrated recently on developing more focused relationships with fewer key distributors. We expect to commit additional time and development resources to customizing our products and services for selected international markets and to developing international sales and support channels. We cannot ensure that such efforts will be successful.

In addition we face certain difficulties and risks inherent in doing business internationally, including, but not limited to:

costs of customizing products and services for international markets;

- dependence on independent resellers;
- multiple and conflicting regulations;
- exchange controls;
- longer payment cycles;
- unexpected changes in regulatory requirements;
- import and export restrictions and tariffs;
- difficulties in staffing and managing international operations;
- greater difficulty or delay in accounts receivable collections;
- potentially adverse tax consequences;
- compliance with a variety of laws outside the United States;
- the impact of possible recessionary environments in economies outside the United States;
- political and economic instability; and
- exposure to foreign currency fluctuations.

Our successful expansion into certain countries will require additional modification of our products and services, particularly national language support. Presently, the majority of our current export sales are denominated in United States dollars. To the extent that international sales continue to be denominated in United States dollars, an increase in the value of the United States dollar relative to other currencies could make our products and services more expensive and, therefore, potentially less competitive in international markets. In certain European Union countries, however, we have introduced pricing in Euros. While we do maintain a foreign currency-hedging program on accounts receivable, to the extent that future international sales are denominated in foreign currency, our operating results will be subject to risks associated with foreign currency fluctuation. Additionally, as we increase our international sales, seasonal fluctuations in revenue generation resulting from lower sales that typically occur during the summer months in Europe and other parts of the world may affect our total revenues.

Our failure to protect our intellectual property rights may harm our competitive position.

Our success depends significantly upon our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, product and services agreements, non-disclosure agreements, and other contractual provisions to establish, maintain, and protect our proprietary rights. These means afford only limited protection.

We cannot ensure that patents will issue from our pending applications or from any future applications or that, if issued, any claims allowed will be sufficiently broad to protect our technology. In addition, we cannot ensure that any patents that have been or may be issued will not be challenged, invalidated or circumvented, or that any rights granted by those patents would protect our proprietary rights. Failure of any patents to protect our technology may make it easier for our competitors to offer equivalent or superior technology.

We have sought also to protect our intellectual property through the use of copyright, trademark, and trade secret laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or services, or to obtain and use information that we regard as proprietary. Third parties may also independently develop similar technology without breach of our proprietary rights.

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In addition, the laws of some foreign countries do not protect proprietary rights to as great an extent as do the laws of the United States. In addition, some of our products are licensed under end user license agreements (also known as shrink-wrap licenses) that are not signed by licensees. The law governing the enforceability of shrink-wrap license agreements is not settled in most jurisdictions. There can be no guarantee that we would achieve success in enforcing one or more shrink-wrap license agreements if we sought to do so in a court of law.

Patent infringement litigation, including patent infringement litigation with Micromuse, Inc., could adversely affect our business.

We acquired Aprisma Management Technologies, Inc. (Aprisma) in February 2005. Aprisma is engaged in patent infringement suits with Micromuse, Inc. Aprisma filed a complaint for patent infringement against Micromuse, Inc. in the U.S. District Court for the District of New Hampshire in December 2002, and Micromuse, Inc. filed a complaint for patent infringement against Aprisma in the United States District Court for the Southern District of New York in January 2005. Both cases remain pending, with trials presently unscheduled.

We will vigorously protect our intellectual property, but patent litigation, with or without merit, could be time-consuming and expensive to litigate or settle and could divert managements attention from focusing on the core business. We cannot ensure that we will prevail in either suit. An adverse decision in either suit could materially affect our business by: (i) impairing our ability to market, sell, and distribute our products, (ii) incurring a substantial financial exposure in the form of patent infringement damages, (iii) incurring royalty costs to secure a license to continue marketing, selling, and distributing our products, if any such license is available, (iv) losing rights to company patents, and (v) requiring significant investment to costly, non-infringing technology, if possible.

Any of these results would increase our expenses and could decrease the functionality of our products, which would make our products less attractive to our current or potential customers. We have agreed in some of our customer agreements, and may agree in the future, to indemnify other parties for any expenses or liabilities resulting from claimed infringements of the proprietary rights of third parties. If we are required to make payments pursuant to these indemnification agreements, it could have an adverse effect on our business, results of operations and financial condition.

Intellectual property infringement claims could result in costly litigation and could harm our business.

As mentioned above, although we do not believe that we are infringing upon the intellectual property rights of others, claims of infringement are becoming increasingly common as the software industry develops legal protections for software products. Litigation may be necessary to protect our proprietary technology, and third parties may assert infringement claims against us with respect to their proprietary rights. Any claims or litigation can be time-consuming and expensive regardless of their merit. Infringement claims against us can cause product release delays, require us to redesign our products, or require us to enter into royalty or license agreements which may not be available on terms acceptable to us or at all.

We may not have sufficient protection against product liability claims.

Because our products are used by our customers to identify and predict current and future application, system, and network problems and to avoid failures of the IT infrastructure to support critical business functions, design defects, software errors, misuse of our products, incorrect data from network elements, or other potential problems, within or out of our control, may arise from the use of our products and could result in financial or other damages to our customers. Our license agreements with our customers typically contain provisions designed to limit our exposure to potential claims as well as any liabilities arising from such claims. As a matter of practice, our license agreements limit our liability in regards to product liability claims, and in many agreements, our maximum liability for product liability claims is limited to the equivalent of the cost of the products licensed under that agreement. However, any litigation or similar procedure related to a product liability claim may require considerable resources to be expended that could adversely affect our business and financial condition and decrease future revenues.

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Changes in accounting policies could adversely affect our business.

Our financial statements are prepared in conformity with United States Generally Accepted Accounting Principles (U.S. GAAP). A change in U.S. GAAP could significantly impact our reported financial results and could retroactively affect prior reporting periods. Our accounting policies that have been, or may be, affected by changes in U.S. GAAP include:

software revenue recognition;

measurement of stock-based compensation at fair value in accordance with Financial Accounting Standards Board Statement No. 123R *Share-Based Payment*; and

accounting for goodwill and other intangible assets.

Changes in U.S. GAAP in these areas or others may have a significant impact on our business.

The conviction of Arthur Andersen LLP may limit potential recoveries related to their prior service as our independent auditors.

Arthur Andersen LLP served as our independent auditors until June 10, 2002. On June 10, 2002, we dismissed Arthur Andersen LLP and on June 11, 2002, we retained PricewaterhouseCoopers LLP as our independent auditors. On June 15, 2002, Arthur Andersen LLP was found guilty on federal obstruction of justice charges arising from the government s investigation of Enron Corporation. Following this conviction, on August 31, 2002, Arthur Andersen LLP ceased operations and can no longer reissue its audit reports or provide its consent to include its audit reports in financial reports filed with the Securities and Exchange Commission (SEC). Accordingly, Arthur Andersen LLP has not performed any procedures in connection with the preparation and filing of this report. Events arising out of the indictment and conviction will likely preclude Arthur Andersen LLP from satisfying any claims arising from the provision of auditing services to us, including claims that may arise out of Arthur Andersen LLP s audit of financial statements incorporated by reference in this quarterly report.

SEC rules require us to present historical audited financial statements in various SEC filings, along with consents from Arthur Andersen LLP to include its audit report in those filings. In light of the cessation of Arthur Andersen LLP s SEC practice, we will not be able to obtain the consent of Arthur Andersen LLP for the inclusion of its audit report in our relevant current and future filings. The SEC has provided regulatory relief designed to allow companies that file reports with the SEC to dispense with the requirement to file a consent of Arthur Andersen LLP in certain circumstances, but purchasers of securities sold under our registration statements, which were not filed with the consent of Arthur Andersen LLP for the inclusion of its audit report will not be able to file suit against Arthur Andersen LLP pursuant to Section 11(a)(4) of the Securities Act and therefore their right of recovery under that section may be limited as a result of the lack of our ability to obtain the consent of Arthur Andersen LLP. If the SEC ceases to accept financial statements from a prior period audited by Arthur Andersen LLP for which Arthur Andersen LLP will not reissue an audit report prior to the date on which our periodic reports are due, our ability to make timely filings with the SEC and access the capital markets could be impaired. In that case, we would not be able to make timely filings with the SEC or access the public capital markets unless another independent accounting firm were able to audit the financial statements originally audited by Arthur Andersen LLP.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(a) Market and Interest Rate Risk

Most of Concord s current export sales are denominated in United States dollars. To the extent that a majority of our international sales continue to be denominated in United States dollars, an increase in the value of the United States dollar relative to other currencies could make our products and services more expensive and, therefore, potentially less competitive in international markets. Substantially all of our business outside the United States is conducted in U.S. dollar-denominated transactions, whereas our operating expenses in our foreign operations are denominated in local currency. We believe that the operating expenses of our foreign operations are immaterial and therefore any associated market risk is unlikely to have a material adverse effect on our business, results of operations or financial condition.

All of the Company s investments are in investment grade securities with high credit ratings of relatively short duration that trade in highly liquid markets and are carried at fair value on the Company s books. Accordingly, the Company has no quantitative information concerning the market risk of participating in such investments. Due to the short-term nature of our investments, we believe we have minimal market risk. The Company s investment portfolio of cash equivalents and marketable securities is subject to interest rate fluctuations but the Company believes this risk is immaterial due to the short-term nature of these investments.

(b) Foreign Currency Exchange Rate Risk

We use forward contracts from time to time to reduce our exposure to foreign currency risk due to fluctuations in exchange rates underlying the value of accounts receivable denominated in foreign currencies held until such receivables are collected. A forward contract obligates us to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates. These forward contracts, to qualify as hedges of existing assets, are denominated in the same currency in which the underlying foreign currency receivables are denominated and bear a contract value and maturity date that approximate the value and expected settlement date, respectively, of the underlying transactions. For contracts that are designated and effective as hedges, unrealized gains and losses on open contracts at the end of each accounting period, resulting from changes in the fair value of these contracts, are recognized in earnings in the same period as gains and losses on the underlying foreign denominated receivables are recognized and generally offset.

We do not enter into or hold derivatives for trading or speculative purposes, and we only enter into contracts with highly rated financial institutions. We plan to continue to utilize forward contracts and other instruments in the future to reduce our exposure to exchange rate fluctuations from accounts receivable denominated in foreign currencies, and we may not be able to do this successfully. Accordingly, we may experience economic loss and a negative impact on earnings and equity as a result of foreign currency exchange rate fluctuations. At March 31, 2005, the Company did not have any forward contracts outstanding.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as defined in Exchange Act Rule 15d-14(c). Based upon that evaluation, the Company s

President and Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in enabling the Company to record, process, summarize, and report information required to be included in the Company s periodic SEC filings within the required time period.

(b) Changes in Internal Control over Financial Reporting.

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There were no changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or would be reasonably likely to materially affect, the Company s internal control over financial reporting.

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CONCORD COMMUNICATIONS, INC.

FORM 10-Q, March 31, 2005

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(a) Claims

On April 30, 2004, the Company received a letter from LMS Technology Distributions SDN BHD (LMS) of Malaysia that demands that the Company reimburse LMS for approximately $4.65 million in alleged losses arising out of the Company s purported wrongful termination of a Concord Authorized Reseller Agreement (the CAR Agreement) with LMS. The Company disputes that the CAR Agreement was wrongfully terminated or that LMS is owed any of the amounts claimed, and the Company intends to defend vigorously against the demand. It is not possible to predict or determine the outcome of these demands or to provide ranges of losses that may arise, if any.

In November 2003, Concord received notice from a former sales employee in France, stating that he was wrongfully dismissed in July 2003. The former employee filed a wrongful termination lawsuit against Concord claiming approximately $0.4 million in damages. In January 2005, the Labor Court of Poissy issued its decision on the former employees unfair dismissal and failure to pay commissions claims. The court found that we did not fulfill our obligations as required by French law and awarded the former employee approximately $12,000. This payment was made by Concord in the three months ended March 31, 2005.

On December 6, 2002, Aprisma filed a complaint for patent infringement against Micromuse, Inc. in the U. S. District Court for the District of New Hampshire. This case remains pending, with a trial presently unscheduled. This case involves Aprisma s claim that Micromuse s systems management products, including NetcoolÓ products such as Netcool/OMNIbus, Impact and Precision infringe the following U.S. Patents: 5,436,909; 5,504,921; 5,777,549; 5,696,486; 5,768,501; and 6,064,304. Aprisma seeks injunctive relief and damages based on Micromuse s infringement. Micromuse has denied infringement, and has alleged that the asserted patents are invalid and are unenforceable. On January 11, 2005, following a two-day hearing, the Court issued a Memorandum and Order in which it adopted the proposed claim construction of the seven disputed claim terms at issue offered by Aprisma. Based on the Court s claim construction ruling, the parties filed summary judgment motions on the issue of infringement, for which they are awaiting a hearing.

On January 26, 2005, Aprisma was named as a defendant in litigation filed in the Southern District of New York alleging patent infringement of various U.S. patents allegedly owned by Micromuse. This case remains pending, with a trial presently unscheduled. This case involves Micromuse s claim that Aprisma s SNMP support products, the SPECTRUM Assurance Server, the SPECTRUM Alarm Monitor, Gateways and MPLS Manager products infringe the following U.S. Patents: 6,192,034; 6,219,648; 6,330,598; 6,687,335; 6,763,333; 5,936,547; and 6,766,375. Micromuse seeks declaratory, injunctive relief and damages for Aprisma s alleged infringement. On March 8, 2005, Aprisma filed a Motion to Dismiss or Transfer the Complaint to the District of New Hampshire. This Motion remains pending.

Based upon the circumstances in both of the Micromuse legal proceedings, an outcome cannot be reasonably predicted. Concord believes the allegations in the suit against Concord are without merit and intends to vigorously defend against them.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

b) Use of Proceeds

On October 16, 1997, Concord commenced an initial public offering (IPO) of 2,900,000 shares of our common stock pursuant to the Company s final prospectus dated October 15, 1997 (the Prospectus). The Prospectus was contained in the Company s Registration Statement on Form S-1, which was declared effective by the Securities and Exchange Commission (SEC File No. 333-33227) on October 15, 1997. Of the 2,900,000 shares of common stock registered, 2,300,000 shares were offered and sold by the Company and 600,000 shares were offered and sold by certain stockholders of the Company. As part of the IPO, the Company granted the several underwriters an over allotment option to purchase up to an additional 435,000 shares of common stock (the Underwriters Option). The IPO closed on October 21, 1997 upon the sale of 2,900,000 shares of common stock to the underwriters. The managing underwriters for the IPO were Nationsbanc Montgomery Securities Inc., BancAmerica Robertson Stephens and Wessels, Arnold and Henderson, L.L.C (the Representatives). On October 24, 1997, the Representatives, on behalf of the several underwriters, exercised the Underwriters Option, purchasing 435,000 additional shares of common stock from the Company. The aggregate offering price of the IPO to the public was $40,600,000 (exclusive of the Underwriters Option), with proceeds to the Company and selling shareholders, after deduction of the underwriting discount, of $29,946,000 (before deducting offering expenses payable by the Company) and $7,812,000, respectively. The aggregate offering price of the Underwriters Option exercised was $6,090,000, with proceeds to the Company, after deduction of the underwriting discount, of $5,663,700 (before deducting offering expenses payable by the Company). The aggregate amount of expenses incurred by the Company in connection with the issuance and distribution of the shares of common stock offered and sold in the IPO were approximately $3.6 million, including $2.7 million in underwriting discounts and commissions and $950,000 in other offering expenses.

None of the expenses paid by the Company in connection with the IPO or the exercise of the Underwriters Option was paid, directly or indirectly, to directors, officers, persons owning ten percent or more of the Company s equity securities, or affiliates of the Company.

The net proceeds to the Company from the IPO, after deducting underwriting discounts and commissions and other offering expenses were approximately $34.7 million. To date, the Company has not utilized any of the net proceeds from the IPO. The Company has invested all such net proceeds primarily in US treasury obligations and other interest bearing investment grade securities. None of the net proceeds from the IPO was used to pay, directly or indirectly, directors, officers, persons owning ten percent or more of the Company s equity securities, or affiliates of the Company.

ITEM 6. EXHIBITS

(a) Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Report.

CONCORD COMMUNICATIONS, INC.

FORM 10-Q, March 31, 2005

SIGNATURE

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

Concord Communications, Inc.

/s/ Melissa H. Cruz

May 10, 2005	Name:	Melissa H. Cruz
	Title:	Executive Vice President, Business Services Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

The following designated exhibits are either filed herewith or, where information is provided under the SEC Document Reference heading corresponding to such exhibit, incorporated by reference to such filing

Exhibit No.	Description	SEC Document Reference
3.01	Restated Articles of Organization of the Company	Exhibit No. 3.01 to Form 10-K, for the period ended December 31, 1997
3.02	Restated By-laws of the Company as restated June 30, 2004	Exhibit No. 3.02 to Form 10-K for the period ending December 31, 2004
4.01	Indenture by and between the Company and Wilmington Trust Company, as Trustee dated as of December 8, 2003	Exhibit No. 4.3 to Registration Statement On Form S-3 (No. 333-112091)
4.02	Registration Rights Agreement by and between the Company and Bear, Stearns & Co. Inc. dated as of December 8, 2003	Exhibit No. 4.4 to Registration Statement On Form S-3 (No. 333-112091)
10.03	Equipment Line of Credit Letter Agreement between the Company and Fleet Bank dated as of June 9, 1997	Exhibit No. 10.03 to Registration Statement on Form S-1 (No. 333-33227)
10.04	1995 Stock Option Plan of the Company	Exhibit No. 10.04 to Registration Statement on Form S-1 (No. 333-33227)
10.06	1997 Stock Plan of the Company, as amended through March 8, 2000	Exhibit No. 10.06 to Form 10-K, for the period ended December 31, 2004
10.07	1997 Employee Stock Purchase Plan of the Company	Exhibit No. 10.06 to Registration Statement on Form S-1 (No. 333-33227)
10.08	1997 Non-Employee Director Stock Option Plan as amended through August 20, 2004	Exhibit No. 10.08 to Form 10-K for the period ending December 31, 2004
10.09	The Profit Sharing/401(K) Plan of the Company	Exhibit No. 10.08 to Registration Statement on Form S-1 (No. 333-33227)
10.10	Lease Agreement between the Company and John Hancock Mutual Life Insurance Company dated March 17, 1994	Exhibit No. 10.09 to Registration Statement on Form S-1 (No. 333-33227)
10.11	First Amendment to Lease Agreement between the Company and John Hancock Mutual Life Insurance Company dated March 25, 1997	Exhibit No. 10.10 to Registration Statement on Form S-1 (No. 333-33227)
10.12		

	Form of Indemnification Agreement for directors and officers of the Company	Exhibit No. 10.11 to Registration Statement on Form S-1 (No. 333-33227)
10.13	Restated Common Stock Registration Rights Agreement between the Company and certain investors dated August 7, 1986	Exhibit No. 10.12 to Registration Statement on Form S-1 (No. 333-33227)
10.14	Amended and Restated Registration Rights Agreement between the Company and certain investors dated December 28, 1995	Exhibit No. 10.13 to Registration Statement on Form S-1 (No. 333-33227)
10.16	2004 Non-Executive Employee Stock Purchase Plan	
10.18	Form of 1997 Non-Qualified Stock Option Agreement for Non-Employee Directors	
10.21	Stock Option Agreement dated January 1, 1996 between the Company and John A. Blaeser	Exhibit No. 10.19 to Registration Statement on Form S-1 (No. 333-33227)
10.22	Stock Option Agreement dated January 1, 1996 between the Company and John A. Blaeser	Exhibit No. 10.20 to Registration Statement on Form S-1 (No. 333-33227)
10.24	Form of Shrink-Wrap License	Exhibit No. 10.22 to Registration Statement on Form S-1 (No. 333-33227)
10.25	Form of 1997 Non-Qualified Employee Stock Option Agreement	Exhibit No. 10.25 to Form 10-K for the period ending December 31, 2004

Exhibit No.	Description	SEC Document Reference
10.26	Stock Purchase Agreement between the Company and Aprisma Holdings, Inc.	Exhibit 2.1 to Form 8-K filed on January 8, 2005
10.27	Schedule T.O. Tender Offer Statement and related amendments	File No. 05-52793, Filed September 27, 2004 and amended October 20, 2004 and October 27, 2004
10.28	2000 Non-Executive Employee Equity Incentive Plan	Exhibit 10.28 to Form 10-K, for the period ended December 31, 2000
10.30	Form of 1997 Executive Incentive Stock Option Agreement	Exhibit 10.30 to Form 10-K for the period ending December 31, 2004
10.31	2001 Non-Executive Employee Stock Purchase Plan	Exhibit No. 10.31 to Form 10-Q filed on November 5, 2001
10.33	Aprisma Management Technologies, Inc. 2003 Equity Participation and Retention Plan	Exhibit No. 10.33 to Form 10-K for the period ending December 31, 2004
10.37	Registration Rights Agreement by and between the Company and Vo Ngoc Tran dated July 17, 2003.	Exhibit No. 4.1 to Registration Statement on Form S-3 (No. 333-108068)
10.41	Restricted Stock Grant Agreement between the Company and Michael Fabiaschi	Exhibit No. 10.2 to Form 8-K filed on March 15, 2005.
10.42	Form of Restricted Stock Grant Agreement of the Company	Exhibit No. 10.42 to Form 10-K for the period ending December 31, 2004
10.43	Amended and Restated Management Change in Control Agreement with John Blaeser	Exhibit No. 10.1 to Form 8-K filed April 11, 2005
10.43	Form of Amended and Restated Management Change in Control Agreement between the Company and certain executive officers, other than its CEO	Exhibit No. 10.2 to Form 8-K filed April 11, 2005
10.44	Agreement and Plan of Merger by and among the Company, Computer Associates International, Inc. and Minuteman Acquisition Corp.	Exhibit No. 2.1 to Form 8-K filed April 7, 2005
*31.1	Certification of John A. Blaeser pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
*31.2	Certification of Melissa H. Cruz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
*32.1		

	Certification of John A. Blaeser pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Melissa H. Cruz pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* filed herewith

Indicates a management contract or compensatory plan or arrangement.

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