ARTEMIS INTERNATIONAL SOLUTIONS CORP
Form 10-Q
May 15, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

for the Quarterly Period Ended March 31, 2006

or

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

For the transition period from to

Commission file number 000-29793

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

(Exact name of Registrant as specified in its charter)

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

4041 MacArthur Boulevard, Suite 401, Newport Beach, CA 92660

(Address of principal executive offices, including zip code)

(949) 660-6500

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer ý

There were 10,877,087 shares of common stock outstanding as of May 12, 2006.

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

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2006

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ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,741	$ 4,057
Trade accounts receivable, net	7,712	9,478
Other accounts receivable	628	572
Prepaid expenses	1,055	1,365
Other current assets	104	136
Total current assets	14,240	15,608
Property and equipment, net	496	491
Investment in affiliates and other assets	824	978
Total assets	$ 15,560	$ 17,077
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 3,562	$ 3,122
Due to related party	346	493
Accrued liabilities	2,607	3,012
Accrued payroll and related taxes	3,745	5,199
Deferred revenue	7,276	4,877
Short-term debt and line of credit, net	4,476	3,871
Current portion of long-term debt	608	611
Total current liabilities	22,620	21,185
Accrued pension and other liabilities	5,262	5,106
Long-term debt, less current portion	1,293	1,498
Total liabilities	29,175	27,789
Commitments and contingencies		
Stockholders deficit:		
Series A convertible preferred stock, liquidation preference of $9,000, $0.001 par value, 25,000,000 shares authorized, 4,090,909 issued and outstanding	4	4
Common stock, $0.001 par value, 50,000,000 shares authorized, 10,877,087 shares issued and outstanding at March 31, 2006 and 10,877,087 shares issued and outstanding at December 31, 2005	11	11
Additional paid-in capital, net of issuance costs	90,447	90,357
Accumulated deficit	(99,813)	(96,721)
Accumulated other comprehensive (loss)	(4,264)	(4,363)
Total stockholders (deficit)	(13,615)	(10,712)
Total liabilities and stockholders deficit	$ 15,560	$ 17,077

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

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenue:		
Software	$ 1,423	$ 2,815
Support	4,097	4,361
Services	5,136	4,796
	10,656	11,972
Cost of revenue:		
Software	133	73
Support	1,181	1,258
Services	3,744	3,997
	5,058	5,328
Gross margin	5,598	6,644
Operating expenses:		
Selling and marketing	3,000	3,859
Research and development	1,940	1,936
General and administrative	1,720	1,870
Merger expenses	752	
Stock compensation	90	
Amortization expense		638
	7,502	8,303
Operating loss	(1,904)	(1,659)
Interest expense, net	186	57
Other expense (income), net	157	(769)
Foreign currency transaction loss	505	95
	848	(617)
Loss before income taxes	(2,752)	(1,042)
Income tax expense	340	211
Net loss	$ (3,092)	$ (1,253)
Loss per common share:		
Basic	$ (0.28)	$ (0.12)
Diluted	$ (0.28)	$ (0.12)
Weighted average common shares used in computing loss per common share	10,877	10,519

The accompanying notes are an integral part of these

condensed consolidated financial statements.

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(Unaudited)	
Cash flow from operating activities:		
Net loss	$ (3,092)	$ (1,253)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	36	776
Gain on the disposition of affiliated entity		(756)
Disposition of assets		19
Stock compensation expense	90	
Changes in operating assets and liabilities:		
Decrease in trade accounts receivable	1,766	2,429
(Increase) decrease in prepaid expenses and other assets	440	(599)
Increase in deferred revenues	2,399	2,875
Decrease in accounts payable, accrued expenses, and other liabilities	(1,411)	(808)
Net cash provided by operating activities	228	2,683
Cash flow from investing activities:		
Capital expenditures, net	(41)	(73)
Proceeds from the sale of investee		829
Net cash provided by (used in) investing activities	(41)	756
Cash flow from financing activities:		
Proceeds from the exercise of stock options and warrants, net of taxes		13
Net increase in short-term borrowings	602	697
Principal borrowings (repayments) of debt	(205)	(23)
Net cash provided by financing activities	397	687
Effect of foreign currency exchange rate changes on cash and cash equivalents	100	(218)
Net increase in cash and cash equivalents	684	3,908
Cash and cash equivalents at the beginning of the period	4,057	3,720
Cash and cash equivalents at the end of the period	$ 4,741	$ 7,628
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 120	$ 205
Cash paid for income taxes	$ 596	$ 701

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

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

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ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2006
(Unaudited)

(all tabular amounts in thousands except per share amounts)

Note 1. Organization

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

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

On March 10, 2006, the Company entered into a merger agreement with a wholly-owned subsidiary of Trilogy, Inc. The merger is expected to be consummated in June 2006 and will allow the Company to discontinue its Exchange Act reporting requirements. (See Note 2 and 14 for further information).

As of March 31, 2006, approximately 73% (or 53%, assuming conversion of all preferred shares) of the Company s outstanding common stock was owned by Proha Plc (Proha), a Finnish Company.

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

Note 2. Basis of Presentation

The accompanying condensed balance sheet as of December 31, 2005, which has been derived from audited financial statements, and the unaudited interim condensed financial statements of Artemis, which include the accounts of its wholly owned subsidiaries for the three month periods ended March 31, 2006 and 2005 and the related footnote information have been prepared on a basis substantially consistent with the Company s audited consolidated financial statements as of December 31, 2005 contained in the Company s annual report on Form 10-K, as filed with the Securities and Exchange Commission (the Annual Report). All significant inter-company transactions have been eliminated. Equity investments in which Artemis owns at least 20% of the voting securities, or exercises significant influence over (either individually or in concert with its parent, Proha), are accounted for using the equity method. Investments in which the

Company owns less than 20% and is not able to exercise significant influence over the investee are accounted for under the cost method of accounting.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in the Company s Annual Report. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which, except as described elsewhere herein, consisted only of normal recurring adjustments) which management considers necessary to present fairly the financial position of the Company at March 31, 2006 and the results of operations for the three month periods ended March 31, 2006 and 2005 and cash flows for the three months ended March 31, 2006 and 2005. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results anticipated for the entire year ending December 31, 2005.

The Company s independent public accountants have included a going concern explanatory paragraph in their audit report on the December 31, 2005 consolidated financial statements, which have been prepared assuming that the Company will continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. At March 31, 2006, the Company s current liabilities exceeded current assets by approximately $8.4 million.

In early 2005, the Company reviewed various strategies to fund the Company and retained an investment-banking firm to engage in selling the Company. As a result, on March 10, 2006, the Company entered into a merger agreement with a wholly-owned subsidiary of Trilogy, Inc., in a transaction valued at approximately $27 million. The agreement provides for the payment of $1.60 per share to holders of Artemis common stock, and $2.20 per share for the holders of Series A Preferred Stock of Artemis, which represents their liquidation value. The transaction is subject to certain covenants relating to the Company s financial performance and the approval of the stockholders of Artemis, with a meeting of the stockholders expected to be held in June 2006. On completion of the merger, Artemis will become a part of Trilogy s recently announced

Versata Group. Assuming a successful completion of this merger transaction, cash requirements through the end of fiscal year 2006 are to fund operations at approximately the same levels as fiscal year 2005 as well as to fund certain acquisition-related costs, such as investment-banking, fairness opinion and legal fees. These fees are expected to be approximately $1.6 million. (See Note 14 for further information).

The Company has taken a number of actions to improve its financial strength and cash availability including but not limited to entering into a loan agreement with a financial institution in Japan for approximately $2.1 million in August of 2005 (see Note 9) and taking steps to reduce and defer discretionary spending to more closely match expenses with actual and projected revenues.

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

Note 3. Stock-Based Incentive Compensation

Effective January 1, 2006, the company adopted the provisions issued by the Financial Accounting Standards Board (FASB) under Statement of Financial Accounting Standards (SFAS) No. 123-R, Share-Based Payment, (SFAS No. 123-R). SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at grant date, based on the fair value of the award. The company previously accounted for awards granted under its equity incentive plans under the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, as amended. The exercise price of options is equal to the market price of the Company s common stock (defined as the closing price as quoted on the Over-the-Counter Bulletin Board administered by Nasdaq) on the date of grant. Accordingly, no share-based compensation was recognized in the financial statements prior to 2006.

Under the modified prospective method of adoption for SFAS No. 123-R, the compensation cost recognized by the company beginning in 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

Options granted by the Company generally expire 10 years from the grant date. Options granted to existing and newly hired employees generally vest over a four-year period from the date of grant. The company s equity incentive plan also allows for performance-based vesting for equity incentive awards.

Share-based compensation recognized in 2006 as a result of the adoption of SFAS No. 123-R as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123-R use the Black-Scholes option pricing model for estimating fair value of options granted under the company s equity incentive plans and rights to acquire stock granted under the Company s stock participation plan.

The following table summarizes the effects of share-based compensation resulting from the application of SFAS No. 123-R to options granted under the company s equity incentive plans and rights to acquire stock granted under the company s stock participation plan:

		Three Months Ended March 31, 2006 (in thousands, except per share amounts) (Unaudited)
General and administrative	$	(90)
Net share-based compensation effect in net income	$	(90)
Basic and diluted loss per common share		
As reported	$	(0.01)
Pro forma	$	(0.01)

In accordance with SFAS No. 123-R, the Company adjusts share-based compensation on a quarterly basis for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments in the first quarter of 2006 was insignificant.

Pro forma information required under SFAS No. 123 for periods prior to 2006 as if the Company had applied the fair value recognition provisions of SFAS No. 123, to options granted under the company s equity incentive plans and rights to acquire stock granted under the Company s stock participation plan, was as follows:

		Three Months Ended March 31, 2005 (in thousands, except per share amounts) (Unaudited)
Net loss as reported	$	(1,253)
Less: Total stock-based employee compensationexpense determined under Black-Scholes option		
pricing model, net of tax		(105)
Pro forma net loss	$	(1,358)
Basic and diluted loss per common share		
As reported	$	(0.12)
Pro forma	$	(0.12)

The above table includes compensation expense related to stock options granted to employees during 2005, 2004 and prior years. The pro forma compensation expense reported in the above table is generally based on the vesting provisions in the related stock option grants, and includes an allowance for estimated forfeitures.

The following weighted average assumptions were used as applicable in the above table:

	Three Months Ended March 31,	
	2006	2005
Annual Dividends	zero	zero
Expected Volatility	112%	118%
Risk free interest rate	4.7%	3.1%
Expected life	5 years	5 years

The expected volatility is based on the historical volatility. The expected life of options granted is based on the simplified calculation of expected life, described in the U.S. Securities and Exchange Commission s Staff Accounting Bulletin 107 due to changes in the vesting terms and contractual life of current option grants compared to the company s historical grants. The expected life for options granted in the first quarter of 2005 included the impact of options with extended vesting periods granted to key officers and other senior level employees.

Options outstanding that have vested and are expected to vest as of March 31, 2006 are as follows:

	Number of	Weighted Average Exercise	Weighted Average Remaining Contractual	Aggregate Intrinsic

(Shares and Intrinsic Value in thousands)	Shares		Price	Term		Value (1)
Vested	1,242	$	25.50	5.6	$	102
Expected to Vest	397		1.80	8.4		53
Total	1,639	$	19.76	6.3	$	155

(1) These amounts represent the difference between the exercise price and $1.54, the closing price of the Company s stock on March 31, 2006 as quoted on the Over-the-Counter Bulletin Board administered by Nasdaq under the symbol AMSI , for all in-the-money options outstanding.

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123(R), which are estimated when compensation costs are recognized. Additional information with respect to stock option activity is as follows:

(Shares and Intrinsic Value in thousands)	Shares Available for Grant	Number of Shares	Outstanding Options Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
January 1, 2006	2,698	1,739	$ 18.70	
Grants	11	11	1.45	1
Exercises				
Cancellations	110	110	1.35	21
March 31, 2006	2,798	1,639	$ 19.76	
Options Exerciseable at:				
December 31, 2005		1,196	$ 26.42	
March 31, 2006		1,242	$ 25.50	

(1) Represents the difference between the exercise price and the value of the Company s common stock at the time of exercise.

Note 4. Significant Recent Accounting Pronouncements

Effective January 1, 2006, the Company adopted SFAS 123-R, using the modified prospective transition method. This Statement replaced SFAS No. 123, Accounting for Stock-Based Compensation, and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees . SFAS 123-R requires a company to measure the grant date fair value of equity awards given to employees in exchange for services and recognize that cost over the period that such services are performed. In addition, SFAS 123-R requires that the excess tax benefits related to stock compensation be reported as a cash inflow from financing activities rather than as a reduction of taxes paid in cash from operations. Refer to Note 3 for additional information on the Company s stock-based compensation plans and related compensation expense.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20 and FASB Statement No. 3. This pronouncement applies to all voluntary changes in accounting principle, and revises the requirements for accounting for and reporting a change in accounting principle. SFAS No. 154 requires

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

In February 2006, the FASB issued SFAS No. 155 entitled Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS No. 133 (Accounting for Derivative Instruments and Hedging Activities) and SFAS No. 140 (Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities). In this context, a hybrid financial instrument refers to certain derivatives embedded in other financial instruments. SFAS No. 155 permits fair value re-measurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133. SFAS No. 155 also establishes a requirement to evaluate interests in securitized financial assets in order to identify interests that are either freestanding derivatives or hybrids which contain an embedded derivative requiring bifurcation. In addition, SFAS No. 155 clarifies which interest/principal strips are subject to SFAS No. 133, and provides that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative. When SFAS No. 155 is adopted, any difference between the total carrying amount of the components of a bifurcated hybrid financial instrument and the fair value of the combined hybrid must be recognized as a cumulative-effect adjustment of beginning deficit/retained earnings.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year, provided that the entity has not yet issued any annual or interim financial statements for such year. Restatement of prior periods is prohibited.

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

Note 5. Basic and Diluted Loss Per Common Share

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

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

	Three Months Ended March 31,	
	2006	**2005**
	(in thousands, except per share amounts) (Unaudited)	
Numerator:		
Net loss	$ (3,092)	$ (1,253)
Denominator:		
Weighted average outstanding shares of common stock	10,877	10,519
Basic and diluted loss per common share	$ (0.28)	$ (0.12)

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Diluted loss per common share for three months ended March 31, 2006 and 2005 does not include the effect of stock options and warrants since their effect would be anti-dilutive. Options and warrants outstanding at March 31, 2006 and 2005 approximated 2.2 million and 2.5 million, respectively.

Note 6. Comprehensive Loss

Comprehensive loss consists of net loss, adjusted for other increases or decreases affecting stockholders equity that are excluded in the determination of net loss. The calculation of comprehensive loss for the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31,	
	2006	2005
	(in thousands) (Unaudited)	
Net loss	$ (3,092)	$ (1,253)
Translation (loss)	99	(218)
Comprehensive loss	$ (2,993)	$ (1,471)

Note 7. Segment and Geographic Information

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

Three Months Ended March 31, 2006

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 149	$ 936	$ 323	$ 15	$ 1,423
Support	1,296	2,333	410	58	4,097
Services	570	3,384	1,038	144	5,136
Total revenue	2,015	6,653	1,771	217	10,656
Cost of revenue:					
Software	37	35	61		133
Support	352	725	87	17	1,181
Services	322	2,815	488	119	3,744
Total cost of revenue	711	3,575	636	136	5,058
Gross margin	1,304	3,078	1,135	81	5,598

Operating income (loss)	$	(1,122)	$	(401)	$	514	$	(143)	$	(1,152)

Three Months Ended March 31, 2005

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 408	$ 1,858	$ 376	$ 173	$ 2,815
Support	1,235	2,596	449	81	4,361
Services	491	3,691	472	142	4,796
Total revenue	2,134	8,145	1,297	396	11,972
Cost of revenue:					
Software	1	57	15		73
Support	335	833	67	23	1,258
Services	500	3,164	251	82	3,997
Total cost of revenue	836	4,054	333	105	5,328
Gross margin	1,298	4,091	964	291	6,644
Operating income (loss)	$ (1,982)	$ (73)	$ 368	$ 28	$ (1,659)

Note 8. Commitments and Contingencies

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

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

Note 9. Debt

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

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

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

During the first half of 2005 Laurus converted a total of $635,000 of the outstanding $1.5 million Minimum Borrowing Note in exchange for 385,978 shares of the Company s common stock, leaving $865,000 outstanding under the Minimum Borrowing Note as of March 31, 2006 which was classified under Short-term debt and line of credit, net in the accompanying condensed consolidated balance sheet.

On March 31, 2005, the Company and Laurus executed a Waiver Letter and Amendment (the Letter Agreement). Pursuant to the terms of the Letter Agreement, the Company received $2,850,000, net of fees of $150,000, on March 31, 2005 in the form of a revolving credit advance (the Advance) under the existing $5.0 million facility with Laurus. The Advance bears interest of one percent (1.00%) per month and becomes due on January 1, 2006. At December 31, 2005, the Advance of $3.0 million is classified as Short-term debt and line of credit, net in the accompanying consolidated balance sheet. The parties further agreed that the conversion price with respect to the next Minimum Borrowing Note (as defined in

Amendment No. 1 to the Security Agreement, dated July 30, 2004) as may be issued after March 31, 2005 shall be equal to the lesser of (i) $2.92 per share or (ii) 105% of the volume weighted average closing price for the Company s common stock on the principal market (or on any securities exchange or other securities market on which the common stock is then listed or quoted) for the five trading days immediately prior to the $1,500,000 aggregation of such new Minimum Borrowing Note.

On March 9, 2006, the Company agreed with Laurus to repay the Advance of $3.0 million and the principal outstanding under the Minimum Borrowing Note of $865,000, plus accrued interest on the earlier of the effective date of the merger transaction described in Note 14, or June 16, 2006. The Company also agreed to pay an additional $110,000 in exchange for the cancellation of warrants owned by Laurus and any prepayment penalties under the agreements with Laurus.

On March 1, 2004, the Company s wholly owned subsidiary in Finland, Artemis Finland Oy (Artemis Finland), entered into a loan agreement with a financial institution in the amount of approximately $3.1 million which was repaid in 2005 (See Note 11).

On August 12, 2005, the Company s wholly owned subsidiary in Japan, Artemis International KK (Artemis Japan) entered into a loan agreement with a financial institution in the amount of approximately $2.1 million (or 233 million Yen). The loan bears interest at 1.95% per annum and is due in monthly installments through July 31, 2008. The proceeds from the loan were used to acquire certain intellectual property rights from the Company s wholly owned subsidiary in the UK. At March 31, 2006, $1.5 million was outstanding of which $0.6 million is classified under Current portion of long-term debt and $0.9 million is classified under Long-tern debt, less current portion in the accompanying consolidated balance sheet.

Interest paid for the three months ended March 31, 2006 and 2005 was approximately $0.1 million and $0.2 million, respectively.

Note 10. Convertible Preferred Stock

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

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

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

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

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

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

Note 11. Other Related Party Transactions

At March 31, 2006 and December 31, 2005, the Company had other net payables to Proha (which, factoring in the common stock conversion rights of the holders of the Series A preferred stock (see Note 10), owns approximately 53% of the Company s outstanding common stock on a post-conversion basis) of $0.3 million and $0.5 million, respectively.

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

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

Artemis Finland shares office space with Proha, for which Proha charges Artemis Finland a share of its office-related costs (Office Allocation Charge), such as rent, utilities, telecommunication costs, office maintenance and certain other expenses based on headcount. The Office Allocation Charge approximated $81,000 and $136,000 for the three months ended March 31, 2006 and 2005, respectively.

Datamar Oy, a subsidiary of Proha (90%), is providing certain project management and programming services to Artemis Finland (Management Programming Fee). The Management Programming Fee charged to Artemis Finland approximated $16,000 and $45,000 for the three months ended March 31, 2006 and 2005, respectively.

Tesnet Group Oy (formerly Intellitest International Oy), a company partially owned by Proha (15%), provides certain software testing services to Artemis Finland (Testing Services). These Testing Services approximated $5,000 and $62,000 for the three months ended March 31, 2006 and 2005, respectively.

Artemis Finland is a distributor of software products provided by Safran Software Solutions AS (Safran), a Norwegian company wholly owned by Proha. The royalty paid by Artemis Finland to Safran approximated $13,000 and $10,000 for the three months ended March 31, 2006 and 2005, respectively.

Artemis Finland has provided certain software development services and software sales to ProCountor International Oy (ProCountor), a company partially owned by Proha (19.9%). Artemis Finland has charged approximately $0 and $1,000 to ProCountor for such services for the three months ended March 31, 2006 and 2005, respectively. ProCountor has also provided certain software development services to Artemis Finland Oy and charged a fee for use of a web-based travel and expense claims program of approximately $12,000 and $1,000 for the three months ended March 31, 2006 and 2005, respectively.

On August 12, 2005, the Company s wholly owned subsidiary in Japan, Artemis International KK (Artemis Japan) entered into a loan agreement with a financial institution in the amount of approximately $2.1 million (or 233 million Yen), of which $1.7 million was outstanding at December 31, 2005. The loan bears interest at 1.95% per annum and is due in monthly installments through July 31, 2008 (see Note 10).

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

An issue arose regarding the Company exercising its put option, which the parties settled in March of 2005 (the Settlement). Pursuant to the Settlement, the Company received $829,000 (including VAT of $136,000) and $557,000 (including VAT of $92,000) in cash in March and April of 2005, respectively, representing the nominal value of the shares held by Artemis France in the joint venture, shareholder loans and other receivables owed to the Company. As a result of the Settlement, the Company recognized a pretax gain of $756,000 reported under the caption Other (income), net in the Company s condensed consolidated statement of operations for the three months ended March 31, 2006.

At March 31, 2006 and 2005, the Company maintained equity holdings in certain joint ventures, which are accounted for under the equity method, with the exception of Metier Scandinavia AS (Norway), Metier Plancom BV(Netherlands) and DA Management Solutions(Finland) which are accounted for under the cost method. The Company records its equity interest in net losses first to the investment balance, then against loans or advances.

Note 12. Benefit Plans

The Company has a defined contribution plan (the Plan) which qualifies under Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan covers all U.S. employees who may contribute up to 60% of their annual compensation with an annual maximum of $15,000 for calendar 2006. Employer contributions vest to the participants incrementally over a period of five years. Company contributions to the Plan were $20,000 and $22,000 during the three months ended March 31, 2006 and 2005, respectively.

The Company also has a defined benefit pension plan covering the employees of its United Kingdom subsidiary. Company contributions are determined based upon a percentage, as determined by an actuary, of an eligible employee s annual salary. Company contributions to the defined benefit pension plan during the year ended December 31, 2005 were $0.3 million. The projected contribution for the year ending December 31, 2006 is $0.3 million.

Net defined benefit pension cost included the following components:

	For the years ended December 31,	
	Projected 2006	**2005**
	(in thousands)	

Service cost	$	370	$	306
Interest cost		680		603
Expected return on plan assets		(660)		(538)
Amortization of unrecognized actuarial net loss		164		122
	$	554	$	493

Note 13. Licensing Agreement

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

The initial term of the software license ends November 30, 2007, and is renewable for one additional three-year term. The Company has agreed on certain minimum royalty payments to secure worldwide exclusivity. Also as part of the transaction, the Company agreed to pay AMS $0.5 million to secure the option to purchase the AMS Software. This option fee was paid by the Company to AMS in April 2005 and is non-recoverable. The option fee was capitalized and recorded under the caption Investment in affiliates and other assets in the accompanying condensed consolidated balance sheet at March 31, 2006 and is being amortized over the option term through November 30, 2006. The purchase price for the AMS Software is $2.5 million and is payable in two annual installments, should the Company elect to exercise such option.

Further, the Company has agreed to fund the additional development work with $0.5 million to be paid in five installments. The Company made two payments of $0.1 million in December 2004 and October 2005.

Note 14. Merger Agreement

On March 10, 2006, the Company entered into a merger agreement with a wholly owned subsidiary of Trilogy, Inc., RCN Acquisition, Inc. (RCN), in a transaction (hereinafter referred to as the Merger) valued at approximately $27 million. The merger agreement provides for the payment of $1.60 per share (the Common Stock Merger Consideration) to holders of the Company s common stock, and $2.20 per share for the holders of the Company s Series A Preferred Stock, which represents their liquidation value pursuant to the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock. The transaction is subject to certain covenants relating to the Company s financial performance and the approval of the stockholders of Artemis, with a meeting of the stockholders expected to be held in June 2006. On completion of the merger, Artemis would become part of Trilogy s recently announced Versata Group. As a wholly-owned subsidiary of RCN, the Company would be able to discontinue its Exchange Act reporting responsibilities. All outstanding options under the Company s option plans with an exercise price below the Common Stock Merger Consideration will be converted into the right to receive the value between the exercise price and the Common Stock Merger Consideration. Outstanding options with an exercise price equal to or greater than the Common Stock Merger Consideration will receive no payment and will be cancelled. The holders of warrants issued in connection with the Series A Preferred Stock have agreed to cancel their outstanding warrants for no consideration.

In addition, under the terms of the merger agreement, the Company s current majority stockholder (Proha) had the right to seek a superior merger/buy-out proposal through March 31, 2006. No such proposal was submitted to the Company. The transaction is subject to a termination fee of $750,000, which would apply if a superior proposal is submitted to the Company and accepted by the Company s board of directors through the date of the aforementioned shareholders meeting.

Joseph Liemandt, a member of the Board of Directors of the Company, is the Chairman of the Board, CEO and President of Trilogy, Inc., which wholly owns Trilogy Capital Holdings Corporation (f/k/a Samuelson Investment Inc.), a holder of Series A Preferred Stock of Artemis. In addition, and as noted above, RCN is a wholly owned subsidiary of Trilogy, Inc.

The merger agreement has been publicly disclosed to provide investors with information regarding its terms and is not intended to provide any other factual information about Artemis and its affiliates or Trilogy and its affiliates. The merger agreement contains representations and warranties the parties thereto made to and solely for the benefit of each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that the parties have exchanged in connection with signing the merger agreement and that modify, qualify and create exceptions to the representations and warranties contained in the merger agreement. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts, since (i) they were made only as of the date of the merger agreement or a prior, specified date, (ii) in some cases they are subject to qualifications with respect to materiality, knowledge and/or other matters and (iii) they are modified in important part by the underlying disclosure schedules. The disclosure schedules contain information that has been included in the Company s prior public disclosures, as well as non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in Artemis public disclosures.

Voting Agreement

Concurrent with the execution of the merger agreement, Proha and a majority of the Company s Series A Preferred Stockholders executed a voting agreement (the Voting Agreement) pursuant to which they have agreed to vote their shares in favor of the merger and not to solicit, assist or vote for an alternative transaction, except that Proha had the right to seek a superior proposal through March 31, 2006. The Voting Agreement terminates if (i) the merger agreement is terminated or (ii) in certain instances, at Proha s discretion. These stockholders are able to transfer their shares of the Company s securities as long as the transferee agrees to be bound by the terms of the Voting Agreement.

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Proha Agreement

Concurrent with the execution of the merger agreement, Proha and the Company executed an agreement (Proha Agreement) that sets forth certain commitments relating to indebtedness between Proha and the Company, as well as transition arrangements between Proha and one of the Company s affiliates, Artemis Finland. Within five business days of the close of the Merger, the Company will pay $0.4 million to Proha to settle the indebtedness between the parties. In addition, the parties have agreed to negotiate in good faith and to execute extensions of a lease agreement and an administrative services agreement between Proha and Artemis Finland, with such extensions to be on terms consistent with those currently in effect, for such period as shall be reasonably requested by the Company.

Laurus Agreement

Concurrent with the execution of the merger agreement, the Company has also executed an agreement (the Laurus Agreement) that provides a final payout relating to, and thereby closing, the Company s current line of credit secured with Laurus. By the earlier of the close of the Merger or June 16, 2006 (the Payout Date), the Company has agreed to pay Laurus the following amounts: (i) all principal outstanding pertaining to the over-advance provided to the Company, which equals $3.0 million plus accrued interest, (ii) all principal outstanding under the minimum borrowing note, which equals $0.9 million plus accrued interest and (iii) $110,000 in exchange for the cancellation of their warrants (collectively, the Payments). There are no additional prepayment penalties due resulting from closing the Laurus Facility. The parties have agreed to execute a customary payoff letter releasing all guarantees and liens under the Laurus Facility at the Payout Date (See Note 6 for further disclosure on the Laurus Facility).

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

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

The following discussion should be read in conjunction with the accompanying unaudited condensed Consolidated Financial Statements and related Notes thereto and the Consolidated Financial Statements and the Notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2005.

Overview

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

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

New Product Development and Launch

Information Technology (IT) Management and Governance

Strategic Asset Optimization

Aerospace and Defense Program Management

Public Investment Management

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

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

More than 440 companies representing over 645,000 users in 44 different countries have licensed Artemis solutions in a broad range of industries, including: AMI Semiconductor, Chicago Mercantile Exchange, Denso, Exelon Energy, Lockheed Martin, MoneyGram, Nokia, Telecom Italia, Toshiba, and USAA.

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

Merger Agreement

On March 10, 2006, we entered into a merger agreement with a wholly owned subsidiary of Trilogy, Inc., RCN Acquisition, Inc. (RCN), in a transaction (hereinafter referred to as the Merger) valued at approximately $27 million. The merger agreement provides for the payment of $1.60 per share (the Common Stock Merger Consideration) to holders of the Company s common stock, and $2.20 per share for the holders of the Company s Series A Preferred Stock, which represents their liquidation value pursuant to the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock. The transaction is subject to certain covenants relating to the Company s financial performance and the approval of the stockholders of Artemis, with a meeting of the stockholders expected to be held in June 2006. On completion of the merger, we would become part of Trilogy s recently announced Versata Group. As a wholly-owned subsidiary of RCN, the we would be able to discontinue its Exchange Act reporting responsibilities. All outstanding options under the Company s option plans with an exercise price below the Common Stock Merger Consideration will be converted into the right to receive the value between the exercise price and the Common Stock Merger Consideration. Outstanding options with an exercise price equal to or greater than the Common Stock Merger Consideration will receive no payment and will be cancelled. The holders of warrants issued in connection with the Series A Preferred Stock have agreed to cancel their outstanding warrants for no consideration.

Critical Accounting Policies

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

Revenue recognition;

Valuation of long-lived assets;

Valuation of deferred tax assets; and

Estimation of the allowance for doubtful accounts receivable.

Revenue recognition

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

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

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

Valuation of long-lived assets

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

Valuation of deferred tax assets

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

Allowance for doubtful accounts receivable

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

Results of Operations

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION.

Consolidated Financial Highlights

(Unaudited)

	Three Months Ended March 31,					
		2006	Percent of Total Revenues		2005	Percent of Total Revenues
	(in millions)					
Statement of Operations Data:						
Revenue:						
Software	$	1.4	13%	$	2.8	24%
Support		4.1	38%		4.4	36%
Services		5.2	48%		4.8	40%
		10.7	100%		12.0	100%
Cost of revenue:						
Software		0.1	1%		0.1	1%
Support		1.2	11%		1.3	11%
Services		3.8	35%		4.0	33%
		5.1	48%		5.3	45%
Gross margin		5.6	52%		6.6	55%
Operating expenses:						
Selling and marketing		3.0	28%		3.9	32%
Research and development		1.9	18%		1.9	16%
General and administrative		1.7	16%		1.9	16%
Merger expenses		0.8	7%			0%
Stock compensation		0.1	1%			0%
Amortization expense			0%		0.6	5%
Restructuring charge			0%			0%
		7.5	70%		8.3	69%
Operating loss		(1.9)	-18%		(1.7)	-14%
Net interest expense		0.2	2%		0.1	0%
Other non-operating expense (income), net		0.2	1%		(0.8)	-6%
Foreign exchange (gain) loss		0.5	5%		0.1	1%
Non operating income, net		0.9	8%		(0.6)	-5%
Loss before income taxes		(2.8)	-26%		(1.0)	-9%
Income tax expense		0.3	3%		0.2	2%
Net loss	$	(3.1)	-29%	$	(1.3)	-10%

Three months ended March 31, 2006 and 2005

Revenue

Software Revenue

	Three Months Ended March 31, 2006	2005	Change $	%
Americas	$ 149	$ 408	$ (259)	-63%
EMEA	936	1,858	(922)	-50%
Japan	323	376	(53)	-14%
Asia	15	173	(158)	-91%
	$ 1,423	$ 2,815	$ (1,392)	-49%

Software revenue represents fees earned for granting customers licenses to use our software products. Software revenue overall decreased by $1.4 million or 49% compared to the first quarter ended March 31, 2005. From a geographical perspective, the decrease was particularly strong in France and the US with decreases of $0.6 million and $0.3 million, respectively. The Company s strategic product platform, Artemis 7, represented 43% of total software revenue for the first quarter of 2006 compared to 62% for the same quarter in 2005.

Support Revenue

	Three Months Ended March 31, 2006	2005	Change $	%
Americas	$ 1,296	$ 1,235	$ 61	5%
EMEA	2,333	2,596	(263)	-10%
Japan	410	449	(39)	-9%
Asia	58	81	(23)	-28%
	$ 4,097	$ 4,361	$ (264)	-6%

Support revenue consists of fees for providing software updates and technical support for our software products. Support revenue for the first quarter of 2006 decreased by 6% or $0.3 million for the three months ended March 31, 2006. This decrease is a result of the adverse effect of changes in foreign currency exchange rates. In addition, increases in support revenue resulting from new software sales were offset by expected attrition within the existing customer base.

Services Revenue

	Three Months Ended March 31, 2006	2005	Change $	%
Americas	$ 570	$ 491	$ 79	16%
EMEA	3,384	3,691	(308)	-8%
Japan	1,038	472	566	120%
Asia	144	142	2	1%
	$ 5,136	$ 4,796	$ 339	7%

Services revenue consists of fees for consulting and training services generated by our personnel and through subcontracted third-party arrangements. For the quarter ended March 31, 2006, services revenue increased by $0.3 million or 7% compared to the same quarter in 2005 with declines in EMEA being offset by an increase in services revenue in Japan and the US. The decrease in EMEA is a result of the adverse effect of changes in foreign currency exchange rates.

Cost of Revenue

	Three Months Ended March 31, 2006	2005	Change $	%
Americas	$ 711	$ 836	$ (125)	-15%
EMEA	3,575	4,054	(479)	-12%
Japan	636	333	303	91%
Asia	136	105	31	30%
	$ 5,058	$ 5,328	$ (270)	-5%

Cost of revenue consists primarily of salaries and third-party expenses principally related to consulting, software maintenance services and training services. The decrease in cost of revenue in the Americas and EMEA was primarily due to a reduction in headcount taken in previous years as a result of the expected lower level of services revenue and efforts to increase the services gross margin. Since the majority of our costs of revenue are directly related to our support and service revenues, this had a significant impact on overall costs of revenues. Cost of revenue increased in Japan as a result of adding resources in line with the expected additional services revenue.

Gross Profit

Total gross profit for the first quarter of 2006 decreased by $1.0 million compared to the first quarter of 2005, resulting from the decrease in software and support revenue, which was partially offset by a margin increase in services revenue. Total gross profit for the three months ended March 31, 2006 was $5.6 million compared to $6.6 million for the same period in 2005. Gross profit margin for the three months ended March 31, 2006 decreased to 53% from 55% during the same period in 2005 due to a shift in revenue mix towards services revenue.

Operating Expenses

Selling and Marketing expenses

Selling and marketing expenses consist primarily of personnel related costs for our direct sales force and marketing staff and cost for marketing programs, including advertising, trade shows, promotional materials and customer conferences. Selling and marketing expenses decreased to $3.0 million during the three months ended March 31, 2006, from $3.9 million during the same period of 2005. Sales and marketing efforts have been focused on further promoting our industry specific solutions while reducing the overall marketing activities.

Research and development

Research and development expenses consist primarily of salaries and related costs associated with the development of our products. Research and development expenses remained flat for the three months ended March 31, 2006 compared to the same period in 2005. Savings resulting from the reduction of our in-house development organization were offset by additional costs of the outsourced development team and related transition costs.

General and administrative

General and administrative expenses consist primarily of personnel salaries and wages and related costs for general corporate functions, including executive, legal, finance, accounting, human resources and information systems. General and administrative expenses decreased by $0.2 million to $1.7 million for the first quarter of 2006, from $1.9 million in the same quarter of 2005, resulting from additional efforts to reduce discretionary spending.

Merger expenses

Merger expenses for the first quarter of 2006 include approximately $0.8 million of legal and other costs that are directly related to the pending merger transaction described in Note 14 to the accompanying condensed consolidated financial statements.

Amortization expense

Amortization expense represents the financial statement effect of amortizing certain intangible assets. The Company recorded amortization expense of zero and $0.6 million for the quarters ended March 31, 2006 and 2005, respectively. The intangible assets were fully amortized in July of 2005.

Non-operating (income) expenses, net

Non-operating income and expenses consist of (i) net interest income or expense, (ii) equity in the net income or losses of unconsolidated affiliates, (iii) foreign exchange gains or losses, (iv) income tax expense (benefit), and (v) other (income) expense. During the three months ended March 31, 2006, the Company incurred interest expense in the amount of $0.2 million, resulting from a loan initiation fee and the interest rate related to an advance under the existing $5.0 million revolving credit facility with Laurus. Foreign exchange gains and losses result from changes in the exchange rates of the currencies used in the countries in which Artemis operates. During the quarter ended March 31, 2005, the Company recognized a pretax gain of $0.8 million as a result of the disposition of an affiliated entity.

Changes in foreign currency exchange rates

The effect of changes in foreign currency exchange rates for the quarter ended March 31, 2006 compared to the prior-year quarter resulted in a decrease in revenues of approximately $0.8 million and an increase in operating loss of less than $0.1 million.

The effect of changes in foreign currency exchange rates for the quarter ended March 31, 2006 compared to the pr

Liquidity and Capital Resources

At March 31, 2006, we had cash of $4.7 million compared to $4.1 million at December 31, 2005.

Our operating activities provided approximately $0.2 million in cash during the three months ended March 31, 2006. Operating cash flow was positively impacted by (i) an increase in deferred revenues of $2.7 million, (ii) a decrease in trade accounts receivable of $1.4 million, and (iii) a decrease in prepaid expenses and other assets of $0.4 million. The effects of these items on cash were partially offset by factors such as (iv) a decrease in accounts payable and other liabilities of $1.4 million and (v) the net loss of $3.0 million reported for the three months ended March 31, 2006. We did not enter into any significant investing activities and increased our borrowings by $0.6 million in financing activities during the three months ended March 31, 2006.

The Company s principal sources of liquidity are cash and cash equivalents, our expected cash flows from operations and our lines of credit. Our near and long-term operating strategies focus on promoting our new and existing solution offerings to increase revenue and cash flow while better positioning the Company to compete under current market conditions.

In early 2005, the Company reviewed various strategies to fund the Company and retained an investment-banking firm to engage in selling the Company. As a result, on March 10, 2006, the Company entered into a merger agreement with a wholly-owned subsidiary of Trilogy, Inc., in a transaction valued at approximately $27 million. The agreement provides for the payment of $1.60 per share to holders of Artemis common stock, and $2.20 per share for the holders of Series A Preferred Stock of Artemis, which represents their liquidation value. The transaction is subject to certain covenants relating to the Company s financial performance and the approval of the stockholders of Artemis, with a meeting of the stockholders expected to be held in June 2006. On completion of the merger, Artemis will become a part of Trilogy s recently announced Versata Group. Assuming a successful completion of this merger transaction, cash requirements through the end of fiscal year 2006 are to fund operations at approximately the same levels as fiscal year 2005 as well as to fund certain acquisition-related costs, such as investment-banking, fairness opinion and legal fees. These fees are expected to be approximately $1.6 million.

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

Related Party Transactions

At March 31, 2006 and December 31, 2005, the Company had other net payables to Proha (which, factoring in the common stock conversion rights of the holders of the Series A preferred stock (see Note 10), owns approximately 53% of the Company s outstanding common stock on a post-conversion basis) of $0.3 million and $0.5 million, respectively.

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

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

Artemis Finland shares office space with Proha, for which Proha charges Artemis Finland a share of its office-related costs (Office Allocation Charge), such as rent, utilities, telecommunication costs, office maintenance and certain other expenses based on headcount. The Office Allocation Charge approximated $81,000 and $136,000 for the three months ended March 31, 2006 and 2005, respectively.

Datamar Oy, a subsidiary of Proha (90%), is providing certain project management and programming services to Artemis Finland (Management Programming Fee). The Management Programming Fee charged to Artemis Finland approximated $16,000 and $45,000 for the three months ended March 31, 2006 and 2005, respectively.

Tesnet Group Oy (formerly Intellitest International Oy), a company partially owned by Proha (15%), provides certain software testing services to Artemis Finland (Testing Services). These Testing Services approximated $5,000 and $62,000 for the three months ended March 31, 2006 and 2005, respectively.

Artemis Finland is a distributor of software products provided by Safran Software Solutions AS (Safran), a Norwegian company wholly owned by Proha. The royalty paid by Artemis Finland to Safran approximated $13,000 and $10,000 for the three months ended March 31, 2006 and 2005, respectively.

Artemis Finland has provided certain software development services and software sales to ProCountor International Oy (ProCountor), a company partially owned by Proha (19.9%). Artemis Finland has charged approximately $0 and $1,000 to ProCountor for such services for the three months ended March 31, 2006 and 2005, respectively. ProCountor has also provided certain software development services to Artemis Finland Oy and charged a fee for use of a web-based travel and expense claims program of approximately $12,000 and $1,000 for the three months ended March 31, 2006 and 2005, respectively.

On August 12, 2005, the Company s wholly owned subsidiary in Japan, Artemis International KK (Artemis Japan) entered into a loan agreement with a financial institution in the amount of approximately $2.1 million (or 233 million Yen), of which $1.7 million was outstanding at December 31, 2005. The loan bears interest at 1.95% per annum and is due in monthly installments through July 31, 2008 (see Note 10).

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

An issue arose regarding the Company exercising its put option, which the parties settled in March of 2005 (the Settlement). Pursuant to the Settlement, the Company received $829,000 (including VAT of $136,000) and $557,000 (including VAT of $92,000) in cash in March and April of 2005, respectively, representing the nominal value of the shares held by Artemis France in the joint venture, shareholder loans and other receivables owed to the Company. As a result of the Settlement, the Company recognized a pretax gain of $756,000 reported under the caption Other (income), net in the Company s condensed consolidated statement of operations for the three months ended March 31, 2006.

At March 31, 2006 and 2005, the Company maintained equity holdings in certain joint ventures, which are accounted for under the equity method, with the exception of Metier Scandinavia AS (Norway), Metier Plancom BV(Netherlands) and DA Management Solutions(Finland) which are accounted for under the cost method. The Company records its equity interest in net losses first to the investment balance, then against loans or advances.

Item 3. Qualitative and Quantitative Disclosure About Market Risk

At March 31, 2006, the majority of our cash balances were held primarily in the form of short- term highly liquid investment grade money market funds of major financial institutions. Due to the short-term nature of our investments and the fact that they are marked to market daily, we believe that we are not subject to any material interest or market rate risks.

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

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d 15(e) of the 34 Act) as of a date within 90 days prior to the filing date of this report (the Evaluation Date). The CEO and CFO concluded based upon that evaluation that, as of March 31, 2006, they were effectively and timely informed by our disclosure controls and procedures of the material information relating to us (or our consolidated subsidiaries) as would be required to be included in our periodic filings with the SEC. Further, our CEO and the CFO concluded based on their most recent evaluation as of the Evaluation Date that there are no significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company s ability to record, process, summarize and report financial data, and our officers have identified no material weaknesses in internal controls.

There were no changes made in our internal control over financial reporting during the quarter ended March 31, 2006 that materially affected, or were reasonably likely to materially affect our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13A-14 and 15D-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13A-14 and 15D-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

		Artemis International Solutions Corporation
Date:	May 15, 2006	/s/ Patrick Ternier Patrick Ternier, Chief Executive Officer
Date:	May 15, 2006	/s/ Robert S. Stefanovich Robert S. Stefanovich, Chief Financial Officer