FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

NETMANAGE INC
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Business Address
10725 N DE ANZA BLVD
CUPERTINO CA 95014
4089737171

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

☒ **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

☐ **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 0-22158

NetManage, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**77-0252226**
(State or other jurisdiction of Incorporation or organization)	**(IRS employer identification no.)**

20883 Stevens Creek Boulevard
Cupertino, California 95014
(Address of principal executive offices, including zip code)

(408) 973-7171
(Registrant' s telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Number of shares of registrant’ s common stock outstanding as of April 21, 2005: 9,233,822

NetManage, Inc.

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NETMANAGE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(Unaudited)

	March 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$24,626	$19,570
Short-term investments	201	219
Accounts receivable, net of allowances of $1,035 and $883, respectively	7,894	15,780
Prepaid expenses and other current assets	2,024	2,608
Total current assets	34,745	38,177
Property and equipment, at cost:		
Computer software and equipment	1,420	1,101
Furniture and fixtures	2,775	2,687
Leasehold improvements	647	988
	4,842	4,776
Less-accumulated depreciation	(1,704)	(1,546)
Net property and equipment	3,138	3,230

Goodwill	3,667	3,667
Other intangibles, net	2,191	2,376
Other assets	68	384
Total assets	$43,809	$47,834
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,702	$2,763
Accrued liabilities	2,859	2,992
Accrued payroll and related expenses	2,475	3,612
Deferred revenue	15,214	17,517
Income taxes payable	1,429	1,433
Total current liabilities	23,679	28,317
Long-term liabilities:		
Deferred revenue	1,569	1,757
Other long-term liabilities	747	786
Total long-term liabilities	2,316	2,543

Total liabilities	25,995	30,860
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.01 par value - Authorized - 1,000,000 shares No shares issued and outstanding	–	–
Common stock, $0.01 par value - Authorized - 36,000,000 shares Issued - 11,310,115 and 11,275,373 shares, respectively Outstanding - 9,233,267 and 9,198,525 shares, respectively	113	113
Treasury stock, at cost - 2,076,848 shares	(20,804)	(20,804)
Additional paid in capital	181,106	180,968
Accumulated deficit	(138,610)	(139,418)
Accumulated other comprehensive loss	(3,991)	(3,885)
Total stockholders' equity	17,814	16,974
Total liabilities and stockholders' equity	$43,809	$47,834

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

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NETMANAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2005	2004
Net revenues:		
License fees	$5,322	$4,790
Services	6,802	7,090
Total net revenues	12,124	11,880
Cost of revenues:		
License fees	326	396
Services	838	914
Amortization of developed technology	70	253
Total cost of revenues	1,234	1,563
Gross margin	10,890	10,317
Operating expenses:		
Research and development	1,937	1,785

Sales and marketing	5,639	5,541
General and administrative	2,438	2,866
Restructuring charges	73	(167)
Amortization of intangible assets	115	150
Total operating expenses	10,202	10,175
Income from operations	688	142
Interest income and other, net	66	49
Foreign currency transaction gains (losses)	71	(572)
Income (loss) before income taxes	825	(381)
Provision for income taxes	17	50
Net income (loss)	$808	$(431)
Net income (loss) per share:		
Basic	$0.09	$(0.05)
Diluted	$0.08	$(0.05)
Weighted average common shares:		
Basic	9,221	8,766

Diluted	9,708	8,766

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

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NETMANAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	2004
Net income (loss)	$ 808	$ (431)
Other comprehensive income (loss):		
Unrealized gain (loss) on investments, net	(8)	46
Foreign currency translation adjustments, net	(98)	482
Total comprehensive income	$ 702	$ 97

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

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NETMANAGE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income (loss)	$808	$(431)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	473	767
Loss on disposal of property, plant and equipment	–	1
Provision for doubtful accounts and returns	224	159
Stock compensation expense	25	546
Changes in operating assets and liabilities:		
Accounts receivable	7,403	3,993
Prepaid expenses and other current assets	506	(69)
Other assets	282	54
Accounts payable	(1,009)	(685)
Accrued liabilities, payroll and payroll-related expenses	(1,125)	(2,458)

Deferred revenue	(2,427)	(252)
Income taxes payable	(3)	179
Other long-term liabilities	(44)	(22)
Net cash provided by operating activities	5,113	1,782
Cash flows from investing activities:		
Purchases of short-term investments	–	(5)
Proceeds from sales and maturities of short-term investments	21	8
Purchases of property and equipment	(226)	(149)
Acquisition related costs	(48)	–
Net cash used in investing activities	(253)	(146)
Cash flows from financing activities:		
Proceeds from sale of common stock	161	527
Net cash provided by financing activities	161	527
Effect of exchange rate changes on cash	35	(22)
Net increase in cash and cash equivalents	5,056	2,141

Cash and cash equivalents, beginning of period	19,570	20,160
Cash and cash equivalents, end of period	$24,626	$22,301

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

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NETMANAGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Interim financial data

The accompanying interim unaudited condensed consolidated financial statements of NetManage, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation. Actual results for fiscal year 2005 could differ materially from those reported in this quarterly report on Form 10-Q. The Company believes the results of operations for interim periods are subject to fluctuation and may not be an indicator of future financial performance. The financial statements should be read in conjunction with the audited financial statements and notes thereto, included in the Company' s annual report on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission.

2. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign currency translation, foreign exchange contracts and comprehensive income (loss)

The functional currency of the Company' s foreign subsidiaries is the local currency. Gains and losses resulting from the translation of the foreign subsidiaries' financial statements are included in accumulated other comprehensive loss and reported as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in net income (loss).

The Company currently does not enter into financial instruments for either trading or speculative purposes. There were no forward foreign exchange contracts used during the three month periods ended March 31, 2005 and 2004.

Total comprehensive income is comprised of net income (loss) and other comprehensive earnings such as foreign currency translation gains or losses and unrealized gains or losses on marketable securities.

Short-term investments

The Company accounts for its investments under the provisions of the Financial Accounting Standards Board' s (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Under SFAS No. 115, the Company' s investments are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of tax, reported in the condensed consolidated balance sheet as "Accumulated other comprehensive loss". Held to maturity securities are valued using the amortized cost method. At March 31, 2005 and December 31, 2004, the fair value of the time deposit investments, which have original maturities in excess of 90 days, approximated amortized cost and, as such, gross unrealized holding gains and losses were not material. The fair value of the available-for-sale securities was determined based on quoted market prices at the reporting dates for those instruments. The carrying value of the Company’ s short-term investments by major security type consisted of the following as of March 31, 2005 and December 31, 2004 (in thousands):

Description	**March 31, 2005**	**December 31, 2004**
Time deposits	$ 132	$ 142
KANA Software, Inc.	69	77
	$ 201	$ 219

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The Company owns a minority interest of less than 1% in KANA Software Inc., a publicly traded company.

Goodwill and other intangible assets, net

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangibles*. Under SFAS No. 142, goodwill is no longer subject to amortization. Rather, SFAS No. 142 requires that intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS No. 142 and at least annually thereafter.

Intangible assets with determinable useful lives are amortized on a straight-line basis over their estimated useful lives ranging from two to five years. The following table provides a summary of the carrying amounts of other intangible assets that will continue to be amortized (in thousands):

	March 31, 2005	December 31, 2004
Carrying amount of:		
Developed technology	$ 1,400	$ 1,400
Employment contracts	800	800
Trade names	300	300
Gross carrying amount of other intangibles	2,500	2,500
Less accumulated amortization:		
Developed technology	(117)	(47)
Employment contracts	(167)	(67)
Trade names	(25)	(10)
Net carrying amount of other intangibles	$ 2,191	$ 2,376

The carrying amount and accumulated amortization as of March 31, 2005 and December 31, 2004 have been adjusted to exclude intangibles that were fully amortized as of December 31, 2004.

The remaining net carrying amount of other intangibles is expected to be amortized as follows (in thousands):

Year	Amortization Expense
Remainder of 2005	$ 555
2006	673
2007	340
2008	340
2009	283
	$ 2,191

The aggregate amortization expense for the three month periods ended March 31, 2005 and 2004 was $0.2 million and $0.4 million, respectively.

Accrued liabilities

Accrued liabilities at March 31, 2005 and December 31, 2004 consisted of the following (in thousands):

Description	March 31, 2005	December 31, 2004
Current restructuring (see Note 3)	$ 257	$ 302
Other accruals	2,602	2,690
Total accrued liabilities	$ 2,859	$ 2,992

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force, (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of the commitment to an exit plan. SFAS No. 146 also requires that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146, which the Company adopted for restructuring activities initiated after December 31, 2002, may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

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Long-term liabilities

Long-term liabilities at March 31, 2005 and December 31, 2004 consisted of the following (in thousands):

Description	March 31, 2005	December 31, 2004
Long-term restructuring (see Note 3)	$ 378	$ 394
Long-term other	369	392
Long-term deferred revenue	1,569	1,757
Total long-term liabilities	$ 2,316	$ 2,543

Concentrations of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash investments and trade receivables. The Company has a cash investment policy that limits the amount of credit exposure to any one issuer and restricts placement of these investments to issuers evaluated as less than creditworthy. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company' s customer base and their dispersion across many different industries and geographies. There were no customers that accounted for 10% or more of consolidated net revenues in the three month periods ended March 31, 2005 and 2004.

Net income (loss) per share

Basic net income (loss) per share data has been computed using the weighted-average number of shares of common stock outstanding during the indicated periods. Diluted net income (loss) per share data has been computed using the weighted-average number of shares of common stock and potential dilutive common shares. Potential dilutive common shares include dilutive shares issuable upon the exercise of outstanding common stock options computed using the treasury stock method.

For the three month periods ended March 31, 2005 and 2004, potentially dilutive securities, consisting of applicable stock options, are as shown in the following table. In those periods in which a net loss was recorded, the potentially dilutive securities were not included in the computation of diluted net loss per share because to do so would have been anti-dilutive.

	Three Months Ended March 31,	
	2005	2004
Potentially dilutive shares	487,396	330,269

The following table sets forth the computation of basic and diluted net income (loss) per share for the three month periods ended March 31, 2005 and 2004 (in thousands, except per share amounts):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net income (loss)	$ 808	$ (431)
Shares used to compute basic net income (loss) per share	9,221	8,766
Potentially dilutive shares used to compute net income per share on a diluted basis	487	–
Shares used to compute diluted net income (loss) per share	9,708	8,766
Net income (loss) per share:		
Basic	$ 0.09	$ (0.05)
Diluted	$ 0.08	$ (0.05)

Income taxes

The Company accounts for income taxes under the liability method. Under the liability method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company is required to adjust its deferred tax liabilities in the period when tax rates or the provisions of the income tax laws change. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that, more likely than not, are expected to be realized.

As part of the process of preparing its condensed consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which the Company operates. This process involves estimating the Company' s actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company' s condensed consolidated balance sheet. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not likely, it must establish a valuation allowance. To the extent the Company establishes a valuation allowance or the allowance in a period changes, the amount recognized as a provision for income taxes in the Condensed Consolidated Statements of Operations could change. The income tax provision of $17,000 for the three months ended March 31, 2005 includes an international tax provision of $13,000 and a U.S. state tax provision of $4,000. The income tax provision of $50,000 for the three months ended March 31, 2004 is comprised of an international tax provision of $31,000 and U.S. state tax provision of $19,000.

Accounting for stock based compensation

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock Based Compensation-Transition and Disclosure*-An Amendment of FASB Statement No. 123, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the amended annual and interim disclosure requirements of SFAS No. 123.

SFAS No. 123, *Accounting for Stock-Based Compensation,* encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the fair value of the award which is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Company' s stock option plans have no intrinsic value at the grant date. Accordingly, under APB Opinion No. 25, no compensation cost is recognized. The Company has elected to continue with the method of accounting prescribed in APB Opinion No. 25 and, as a result, must provide pro forma disclosures of net income (loss) and net income (loss) per share and other disclosures as if the fair value based method of accounting had been applied. Had compensation cost for the Company' s outstanding stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed by SFAS No. 123, the Company' s net income (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below (in thousands except per share data):

	Three Months Ended March 31,	
	2005	**2004**
Net income (loss) as reported	$808	$(431)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	(220)	(199)
Pro forma net income (loss)	$588	$(630)

Weighted average common shares:		
Basic	9,221	8,766
Diluted	9,708	8,766
Basic income (loss) per share, as reported	$ 0.09	$ (0.05)
Diluted income (loss) per share, as reported	$ 0.08	$ (0.05)
Basic income (loss) per share, pro forma	$ 0.06	$ (0.07)
Diluted income (loss) per share, pro forma	$ 0.06	$ (0.07)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes model with the following assumptions used for grants during the applicable periods:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Volatility	39.37%	99.81%
Risk-free interest rate	3.56-4.04%	2.63-2.98%
Dividend yield	0.00%	0.00%
Expected term	3 - 4 months beyond vest date	3 - 4 months beyond vest date

Revenue recognition

The Company derives revenue primarily from two sources: (1) product revenue, which includes software license and royalty revenue, and (2) support and services revenue, which includes software maintenance and consulting. The Company licenses its software products on a term basis and on a perpetual basis. Its term based arrangements are primarily for a period of 12 months. The Company also licenses its software in both source code and object code format. The Company applies the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition,* and related amendments and interpretations to all transactions involving the licensing of software products.

The Company recognizes revenue from the sale of software licenses to end users and resellers when the following criteria are met: persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable, and collection of the resulting receivable is reasonably assured. Delivery occurs when the product is delivered to a common carrier or when a soft key has been transmitted to the customer.

Product is sold, without the right of return, except for distributor inventory rotation of old or excess product. Certain of it' s the Company' s sales are made to domestic distributors under agreements allowing rights of return and price protection on unsold merchandise. Accordingly, the Company defers recognition of such sales until the distributor sells the merchandise. The Company recognizes sales to international distributors upon shipment, provided all other revenue recognition criteria have been met. The Company gives rebates to customers on a limited basis. These rebates are presented in its Condensed Consolidated Statements of Operations as a reduction of revenue.

At the time of the transaction, the Company assesses whether the fee associated with its revenue transactions is fixed and determinable and whether or not collection is reasonably assured. The Company assesses whether the fee is fixed and determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after normal payment terms, the Company accounts for the fee as not being fixed and determinable. In these cases, it recognizes revenue as the fees become due.

The Company assesses the ability to collect on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company does not request collateral from its customers. If the Company determines that collection of a fee is not reasonably assured, it recognizes revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

For all sales, except those completed over the Internet, the Company uses either a binding purchase order or signed license agreement as evidence of an arrangement. For sales over the Internet, it uses a credit card authorization as evidence of an arrangement. Sales through the Company' s distributors are evidenced by a master agreement governing the relationship together with binding purchase orders on a transaction-by-transaction basis.

For arrangements with multiple elements (for example, undelivered maintenance and support), the Company allocates revenue to each element of the arrangement using the residual value method based on vendor-specific objective evidence (VSOE) of the fair value of the undelivered elements. This means that it defers revenue from the arrangement fee equivalent to the fair value of the undelivered elements. Fair values for the ongoing maintenance and support obligations are generally based upon separate sales of renewals to other customers or upon renewal rates quoted in the sales contracts. Fair value of services, such as training or consulting, is based upon separate sales by the Company of these services to other customers. However, if an arrangement includes an acceptance provision, acceptance occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period.

Service revenues are derived from providing the Company' s customers with software updates for existing software products, user documentation and technical support, under annual service agreements. These revenues are recognized ratably over the terms of such agreements. If such services are included in the initial licensing fee, the value of the services determined based on VSOE of fair value is unbundled and recognized ratably over the related service period. Service revenues derived from consulting and training are deferred and recognized when the services are performed and collection is deemed probable. To date, consulting revenue has not been significant.

Recent accounting pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB Opinion No. 25 to stock compensation awards issued to employees. Rather, the new standard requires enterprises to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The Company has not yet quantified the effects of the adoption of SFAS 123R, but anticipates that the new standard may result in significant stock-based compensation expense. The pro forma effects on net income and earnings per share if the Company had applied the fair value recognition provisions of the original SFAS 123 on stock compensation awards (rather than applying the intrinsic value measurement provisions of APB Opinion No. 25) are disclosed above. Although such pro forma effects of applying the original SFAS 123 may be indicative of the effects of adopting SFAS 123R, the provisions of these two statements differ in some important respects. The actual effects of adopting SFAS 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by the Company to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method (as described below) chosen for adopting SFAS 123R.

SFAS 123R will be effective for the Company' s fiscal year beginning January 1, 2006, and requires the use of the Modified Prospective Application Method. Under this method SFAS 123R will be applied to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (such as unvested options) that are outstanding as of the date of adoption shall be recognized as the remaining requisite services are rendered. The compensation cost relating to unvested awards at the date of adoption shall be based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS 123. In addition, companies may use the Modified Retrospective Application Method. This method may be applied to all prior years for which the original SFAS 123 was effective or only to prior interim periods in the year of initial adoption. If the Modified Retrospective Application Method is applied, financial statements for prior periods shall be adjusted to give effect to the fair-value-based method of accounting for awards on a consistent basis with the pro forma disclosures required for those periods under the original SFAS 123.

In September 2004, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) Issues 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* which delays the effective date for the recognition and measurement guidance in EITF Issue No. 03-1. In addition, the FASB has issued a proposed FSP to consider whether further application guidance is necessary for securities analyzed for impairment under EITF Issue No. 03-1. The Company continues to assess the potential impact that the adoption of the proposed FSP could have on its financial statements.

3. Restructuring of operations

On January 31, 2003, the Company announced a restructuring of its operations in response to the sluggish North America and European economies. The Company concluded that it was necessary to refocus its operations and reduce its operating expenses. As part of the restructuring, the Company reduced its workforce in excess of 30%. The distribution of the reduction in workforce was as follows:

	Terminations	Replacements	Net Reduction
Operations	10	6	4
Services	14	1	13
Research and development	19	–	19
Sales and marketing	44	4	40
General and administrative	24	5	19

Total	111	16	95

The Company anticipates that the execution of the restructuring actions will require total cash expenditures of $3.0 million, which is expected to be funded from operations and existing cash balances. As of March 31, 2005, the Company had incurred net costs totaling $3.0 million related to the restructuring, which required $2.7 million in cash expenditures. The remaining reserve related to this restructuring is $0.3 million and is included in accrued liabilities and long-term liabilities as of March 31, 2005.

The following table lists the components of the January 2003 restructuring reserve for the three month period ended March 31, 2005 (in thousands):

	Employee Costs	Excess Facilities	Total
Balance at December 31, 2004	$ 205	$ 82	$287
Reserve utilized in three months ended March 31, 2005	(11)	(6)	(17)
Balance at March 31, 2005	$ 194	$ 76	$270

On August 8, 2002, the Company announced a restructuring of its operations designed to re-align its core business functions and reduce operating expenses. As part of the restructuring, the Company reduced its workforce by approximately 26% and recorded a $4.6 million charge to operating expenses in the third quarter of 2002. Additional adjustments were made to this restructuring reserve in 2003 and 2004. As of March 31, 2005, the Company has recorded a total restructuring expense, net of adjustments, of $3.3 million, consisting of $2.1 million for facilities and $1.2 million in employee severance and other related expenses. In March 2005, the Company recorded an increase in the restructuring expense of $11,000 for additional closing costs for the Kirkland and Andover facilities. The Company anticipates that the execution of the restructuring actions will require total cash expenditures of $3.0 million, which is expected to be funded from internal operations and existing cash balances. As of March 31, 2005, $3.0 million has been paid, leaving a remaining restructuring liability of $9,000 that is included in accrued liabilities.

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The distribution of the reduction in workforce was as follows:

	Terminations	Retained	Net Reduction
Operations	6	–	6
Services	17	–	17
Research and development	53	–	53
Sales and marketing	22	8	14
General and administrative	11	1	10
Total	109	9	100

The following table lists the components of the August 2002 restructuring reserve for the three month period ended March 31, 2005 (in thousands):

	Excess Facilities
Balance at December 31, 2004	$ 40
Net change in estimate recorded in restructuring expense	11
Reserve utilized in three months ended March 31, 2005	(42)
Balance at March 31, 2005	$ 9

In August 1998, following the acquisition of FTP Software Inc. (FTP), the Company initiated a plan to restructure its worldwide operations as a result of business conditions and in connection with the integration of the operations of FTP. In connection with this plan, the Company recorded a $7.0 million charge to operating expenses in 1998. In March 2005, the Company recorded an increase in the restructuring expense of $62,000 composed of $30,000 related to the Company' s inability to sublease excess space, $35,000 in legal and associated costs related to the Birmingham, U.K. facility offset by $3,000 related to foreign exchange adjustments on the long term lease commitments and related sublease agreements. The remaining reserve related to this restructuring at March 31, 2005 is $355,000 and is included in accrued liabilities and long-term liabilities.

The following table lists the components of the FTP restructuring reserve for the three month period ended March 31, 2005 (in thousands):

	Excess Facilities
Balance at December 31, 2004	$ 369
Change in estimate recorded in restructuring expense	62
Reserve utilized in three months ended March 31, 2005	(76)
Balance at March 31, 2005	$ 355

4. Commitments and contingencies

Legal proceedings

On November 22, 1999, Kenneth Fisher filed a complaint alleging violations of the False Claims Act, 31 U.S.C. § 3729 et seq., against the Company and its affiliates Network Software Associates, Inc., or NSA, and NetSoft Inc., or NetSoft, in the United States District Court of the District of Columbia. Mr. Fisher purported to file the action on behalf of himself and the United States federal government. The Company acquired NSA and NetSoft in 1997. The United States government declined to pursue the action on its own behalf and, therefore, the action was pursued by Mr. Fisher, as relator, on behalf of himself and the government. The Company, and its affiliates, first learned of the action when the Company was served with the amended complaint in May 2001. On September 5, 2001, Mr. Fisher agreed to voluntarily dismiss the Company from this action, without prejudice, in exchange for an agreement to suspend applicable statutes of limitation as to Mr. Fisher' s claims.

On January 31, 2002, on an order of the court granting in part and denying in part defendant' s motion to dismiss the May 2001 amended complaint, Mr. Fisher filed a Second Amended Complaint in the United States District Court of the District of Columbia against NSA and NetSoft among numerous other defendants. On May 13, 2002, on an order of the court following defendants' successful motion to strike the Second Amended Complaint, Mr. Fisher filed a Third Amended Complaint, or complaint, in the United States District Court of the District of Columbia against NSA and NetSoft among numerous other defendants. Mr. Fisher is asserting the claims in the present complaint solely in his capacity as relator on behalf of the United States. The complaint alleges that NSA, NetSoft and the other defendants made false claims to the government to obtain government contracts set aside for entities owned and controlled by disadvantaged persons admitted to the Section 8(a) Minority Small Business Development Program. Specifically, the complaint alleges that from 1993 to 1997, NSA, NetSoft, and the other defendants presented false or fraudulent claims for payment or approval to the government in violation of 31 U.S.C. § 3729 (a)(1), and used false records or statements to get claims paid or approved by the government in violation of 31 U.S.C. § 3729 (a) (2). In addition, the complaint alleges that NSA, NetSoft and the other defendants conspired to defraud the government by working to fraudulently continue NSA’ s certification as a Section 8(a) entity for alleged use by NSA’ s Federal Systems Division and by getting fraudulent claims allowed and paid by virtue of the alleged fraudulent Section 8(a) status, in violation of 31 U.S.C. § 3729 (a) (3). The Company did not acquire NSA until July 1997 and had no involvement with the events alleged by Mr. Fisher. According to the earlier amended complaint (although not alleged in the current complaint), Mr. Fisher’ s theory was that the liabilities of NSA and NetSoft, including alleged liability in this suit, passed to the Company. On May 31, 2002, NSA and NetSoft and the other defendants answered the complaint. The Company and its affiliates dispute Mr. Fisher’ s allegations.

The Company has demanded indemnification for all damages arising out of this case, including attorney’ s fees and costs, from the former shareholders of NSA and the successor in interest to the Federal Systems Division of NSA pursuant to the Stock Purchase Agreement governing the Company’ s acquisition of NSA and the Bill of Sale under which NSA divested the assets comprising the Federal Systems Division. The Company expresses no view as to the likelihood of its ability to prevail on its indemnification claims or collecting on any judgment it might obtain in connection with those claims.

On July 23, 2004, the defendants jointly filed a motion for partial summary judgment seeking to dismiss a portion of Mr. Fisher’ s claims. The motion has yet to be decided.

On October 27, 2004, the court issued an order permitting Mr. Fisher’ s counsel to withdraw, leaving him without representation in this action. On December 15, 2004, defendants filed a motion to dismiss Mr. Fisher’ s claims based on that fact. The court has stayed all proceedings in the case until May 13, 2005 pending a ruling on the motion to dismiss.

The Company is unable to ascertain whether an amicable resolution will be reached in this case and has insufficient information at this time to estimate the possible loss, if any, which might result from this lawsuit. The Company intends to vigorously defend against the action.

The Company may be contingently liable with respect to certain asserted and unasserted claims that arise during the normal course of business. Management believes the impact, if any, resulting from these matters would not have a material impact on the Company’ s financial statements.

Leases

Facilities and equipment are leased under non-cancelable operating leases expiring on various dates through the year 2011. The Company does not have any capital leases. As of March 31, 2005, future minimum rental and lease payments, net of any sublease income, under non-cancelable operating leases are as follows:

	Amount of Commitment Expiration Per Period (in thousands)				
	Total	12 months or less	13 to 24 months	25 to 36 months	More than 36 months
Operating leases	$ 12,422	$ 2,239	$ 2,114	$ 2,159	$ 5,910

Other

As an element of its standard commercial terms, the Company includes an indemnification clause in its software licensing agreements that indemnifies the licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark, or trade secret infringement by its software. The Company’ s indemnification limitation is the cost to defend any third party claim brought against its customers, and to the maximum, a refund of the purchase price. To date, the Company has not experienced any claims related to its indemnification provisions and therefore has not established an indemnification loss reserve. The Company licenses its software products on a term and a perpetual basis.

5. Related party transactions

On May 28, 2003, the Company entered into an independent contractor services agreement with Dr. Shelley Harrison, a director of the Company, pursuant to which Dr. Harrison will receive compensation in consideration for consultancy and advisory services he is providing the Company over a two-year period. The terms of the agreement require the Company to pay Dr. Harrison a fixed fee of $138,000 per year, and a one time grant to Dr. Harrison of an option to purchase 150,000 shares, inclusive of 3,200 shares Dr. Harrison was eligible to receive under the 1993 Directors Plan for 2003 and 2004 and 146,800 shares from the 1999 Plan, at an exercise price of $1.92 per share (which represents the quoted market price of the stock at the date of grant). The option vests on a monthly basis over the two-year term of the agreement. The option expires five years from the date of issuance. The fair value of the 146,800 options from the 1999 Plan was determined using the Black-Scholes option pricing model with the following assumptions: stock price $2.95-$9.65; no dividends; risk free interest rate of 2.00%-3.72%; volatility of 39%-99%; and a contractual life of five years. The fair value of the option is subject to change over the vesting period of the option based on changes in the underlying assumptions (variable award accounting). For the three month period ended March 31, 2005, the Company recorded $25,000 to compensation expense under this agreement based on an aggregate option fair value of $692,000. Compensation expense of $546,000 was recorded by the Company under this agreement for the three month period ended March 31, 2004. In connection with his entering into the agreement, Dr. Harrison resigned from the Company' s Audit Committee effective May 28, 2003. For the three month period ended March 31, 2005, the Company recorded total aggregate cash and non-cash compensation of $60,000 related to this arrangement under General and Administrative expense in the Condensed Consolidated Statements of Operations.

Item 2 − Management' s discussion and analysis of financial condition and results of operations.

Some of the statements contained in this Management' s discussion and analysis of financial condition and results of operations section of this Form 10-Q are forward-looking statements, including, but not limited to, those specifically identified as such, that involve risks and uncertainties, including those set forth below under the heading "Factors that may affect our future results and financial condition" and elsewhere in this report. The statements contained in this Management' s discussion and analysis of financial condition and results of operations section of this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding the future. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All forward-looking statements included in this Management' s discussion and analysis of financial condition and results of operations section of this Form 10-Q are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements.

Overview

We develop and market software and service solutions that are designed to enable our customers to access and leverage the considerable investment they have in their corporate business applications, processes and data. Our business is focused on providing a broad spectrum of personal computer, browser-based and server-based software products and tools. These products allow our customers to access and leverage applications, business processes and data on IBM and IBM compatible mainframe computers, IBM mid-range computers such as the iSeries, in packaged applications, middleware and databases such as SAP, Siebel, Oracle and PeopleSoft, amongst others, and on UNIX and Microsoft based servers. We provide support, maintenance, and technical consultation services to our customers in association with the products we develop and market. We provide applications and management consultancy to our customers primarily in association with the server-based products we deliver that are designed to allow customers to develop and deploy new web-based applications and services.

Four important industry trends have strong influences on our business strategy:

1. the rapid adoption of electronic commerce by major corporations worldwide and the increasing acceptance of these approaches in mid-tier and mid-sized companies;
2. the continuing development of the Internet, intranets and extranets for delivery of mission-critical business applications in large and mid-sized companies;
3. an increased desire on the part of corporations to make business processes and information broadly accessible internally and externally to their employees and business partners; and
4. the continued mobilization of users of personal computers and the proliferation of wireless and handheld devices requiring corporate system access on a global basis.

The growth of the Internet has also been matched by an increase in the use of mobile computing allowing users to access a company' s computer systems from remote locations within the confines of an organization' s security and access-control policies. As the Internet continues to grow, the number of different communication and inter-networking options required by major corporations to support their businesses is also increasing. The number and type of mobile computing and communication devices now includes wireless handheld devices, PDAs and Internet and Web-enabled cellular phones and smartphones. We anticipate that these trends will continue to accelerate over the next several years.

We believe that our customers require a single set of solutions that address the traditional need for host access combined with the need for the presentation of existing corporate systems with a Web application look and feel, and the delivery of existing corporate processes and transactions as reusable programmatic components such as Web services. In assessing the change in the marketplace, we have focused our sales and marketing efforts on meeting the changing needs of our customers. Our products are designed and built to incorporate reusable components and technologies and to utilize common underlying services such as user management, system management, security, auditing and reporting. Several technologies are employed to provide solutions; these include traditional fat client or desktop solutions; thin client or browser-based solutions; zero footprint or server-based solutions and application adapter or connector technologies. Within this marketplace, we believe the trend is away from desktop solutions and toward zero footprint solutions. We believe this movement is primarily driven by a desire to reduce the total cost of ownership associated with deploying and maintaining these solutions. We also believe that a major element of our customer base will deploy a mixture of all types of solutions. The market is also made up of a number of products that allow organizations to reduce costs or increase revenue by allowing them, or their business partners, to interact via the Internet with corporate business applications that are the backbone of their business processes. A primary example of this kind of solution is found in self-service call center applications. Companies are building solutions that allow customers to determine order status over the Internet without involving a customer support representative. This approach simultaneously minimizes staffing costs and improves customer service. Our goal is to assist our customers in building solutions that quickly transform corporate applications into Web-based solutions.

Application of critical accounting policies

Our discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements which have been prepared in conformity with generally accepted accounting principles in the United States of America. Our preparation of these condensed consolidated financial statements requires us to make judgments and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from such estimates under different assumptions or conditions. The following summarizes our critical accounting policies used in preparing our condensed consolidated financial statements:

Revenue Recognition: We derive revenue primarily from two sources: (1) product revenue, which includes software license and royalty revenue, and (2) support and services revenue, which includes software maintenance and consulting. We license our software products both on a term basis and on a perpetual basis. Our term based arrangements are primarily for a period of 12 months. We also license our software in both source code and object code format. We apply the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition,* and related amendments and interpretations to all transactions involving the licensing of software products.

We recognize revenue from the sale of software licenses to end users and resellers when the following criteria are met: persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured. Delivery occurs when the product is delivered to a common carrier or when a soft key has been transmitted to our customer.

Product is sold without the right of return, except for distributor inventory rotation of old or excess product. Certain of our sales are made to domestic distributors under agreements allowing rights of return and price protection on unsold merchandise. Accordingly, we defer recognition of such sales until the distributor sells the merchandise. We recognize sales to international distributors upon shipment, provided all other revenue recognition criteria as mentioned above have been met. We give rebates to customers on a limited basis. These rebates are presented in our Condensed Consolidated Statement of Operations as a reduction of revenue.

At the time of the transaction, we assess whether the fee associated with our revenue transactions is fixed and determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed and determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after our normal payment terms, we account for the fee as not being fixed and determinable. In these cases, we recognize revenue as the fees become due.

We assess ability to collect 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 recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

For all sales, except those completed over the Internet, we use either a binding purchase order or signed license agreement as evidence of a contractual arrangement. For sales over the Internet, we use a credit card authorization as evidence of an arrangement. Sales through our distributors are evidenced by a master agreement governing the relationship together with binding purchase orders on a transaction-by-transaction basis.

For arrangements with multiple elements (for example, undelivered maintenance and support), we allocate revenue to each element of the arrangement using the residual value method based on vendor-specific objective evidence (VSOE) of the fair value of the undelivered elements. This means that we defer revenue from the arrangement fee equivalent to the fair value of the undelivered elements. Fair values for the ongoing maintenance and support obligations are generally based upon separate sales of renewals to other customers or upon renewal rates quoted in the sales contracts. Fair value of services, such as training or consulting, is based upon separate sales by us of these services to other customers. However, if an arrangement includes an acceptance provision, acceptance occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period.

Service revenues are derived from providing our customers with software updates for existing software products, user documentation and technical support, under annual service agreements. These revenues are recognized ratably over the terms of such agreements. If such services are included in the initial licensing fee, the value of the services determined based on VSOE of fair value is unbundled and recognized ratably over the related service period. Service revenues derived from consulting and training are deferred and recognized when the services are performed and collection is deemed probable. To date, consulting revenue has not been significant.

Allowance for doubtful accounts, sales returns and rebates: In establishing our sales return and rebate allowance, we must make estimates of potential future product returns related to current period product revenue, including analyzing historical returns, current economic trends, and changes in customer demand and acceptance of our products. We apply significant judgment in connection with assessing whether or not our accounts receivable are collectible. We analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. Our accounts receivable balance was $7.9 million and $15.8 million, net of our allowance for doubtful accounts, sales returns, and rebate reserves of $0.9 million and $1.0 million as of March 31, 2005 and December 31, 2004, respectively.

Restructuring reserves: We accrue for restructuring costs when we make a commitment to a firm exit plan that specifically identifies all significant actions to be taken in conjunction with our response to a change in our strategic plan, product demand, expense structure or other factors such as the date we cease using a facility. We reassess our prior restructuring accruals on a quarterly basis to reflect changes in the costs of our restructuring activities, and we record new restructuring accruals as commitments are made. Estimates are based on anticipated costs of such restructuring activities and are subject to change. Our restructuring reserves balance was $0.6 million and $0.7 million as of March 31, 2005 and December 31, 2004, respectively.

Accounting for income taxes: As part of the process of preparing our condensed consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our Condensed Consolidated Balance Sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and 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 Condensed Consolidated Statement of Operations.

Valuation of long-lived and intangible assets and goodwill: We believe that the accounting estimate related to asset impairment is a “critical accounting estimate” because: (1) it is highly susceptible to change from period to period as it requires us to make assumptions about future revenues over the life of our software products and services; and (2) the impact that recognizing an impairment has on the assets reported on our Condensed Consolidated Balance Sheet and the net income (loss) reported in our Condensed Consolidated Statement of Operations could be material.

Our assumptions about future revenues and sales volumes require significant judgment because actual sales prices and volumes have fluctuated significantly in the past and are expected to continue to do so. In estimating future revenues, we use our sales performance, planned levels of product development, planned new product launches, our internal budgets and industry market estimates of planned market size and growth rates to assist us.

We assess the carrying value of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the carrying value of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at a minimum, annually. SFAS No. 142, *Goodwill and Other Intangible Assets* requires that if the fair value of a company’ s individual reporting unit is less than the reported value of the individual reporting unit, an asset impairment charge must be recognized in the financial statements. The amount of the impairment is calculated by subtracting the fair value of the asset from the carrying value of the asset. We measure impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in our current business model.

Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends; and
- our market capitalization relative to net book value.

Results of operations

During the past several years, we have implemented initiatives designed to control costs and reduce operating expenses, including the discontinuance of low revenue-generating products and the implementation of worldwide restructurings of our operations.

For the three month period ended March 31, 2005 as compared to March 31, 2004, our net revenues increased 2%. This growth in net revenues resulted primarily from increased license fees, up 11%, offset in part by a decrease of 4% in service revenues from the first quarter of 2004. While we believe the economy is improving, which should have a positive impact on our net revenues, we will continue to focus on making our operations more efficient and reducing operating expenses wherever possible.

On October 22, 2004, we completed our acquisition of Librados, Inc., or Librados, an early stage company selling adapters for packaged applications including SAP, Siebel, Oracle, JD Edwards, PeopleSoft, and others. We paid $2.0 million in cash and issued 263,678 shares of NetManage common stock valued at $1.4 million. Transaction costs were $0.2 million in cash. Additionally 65,920 shares of NetManage common stock may be issued under the terms of the related agreement if a specified level of cumulative revenue from the sale of Librados product is achieved by December 31, 2006. The acquisition was accounted for as a purchase and accordingly, the results of operations of Librados from the date of acquisition have been included in the our condensed consolidated financial statements. In connection with the acquisition, we recorded net liabilities of $0.8 million, identified intangibles assets of $2.5 million and goodwill of $1.9 million.

On January 31, 2003, NetManage announced a restructuring of its operations designed to improve efficiency and reduce operating expenses. As part of the restructuring, NetManage reduced its workforce in excess of 30%. As of March 31, 2005, we have recorded a total of $3.0 million in charges to operating expenses related to these restructuring activities, consisting of $0.4 million of expenses related to leased facilities no longer needed for our operations and $2.6 million of employee severance and other related expenses (See Note 3 to Condensed Consolidated Financial Statements - Restructuring of operations).

On August 8, 2002, we announced a restructuring of our operations designed to re-align our core business functions and reduce operating expenses. As part of this restructuring, we intended to reduce our workforce by approximately 26% and recorded a $4.6 million charge to operating expenses in the third quarter of 2002. The restructuring charge included $2.6 million of expenses related to facilities no longer needed for Company operations and $2.0 million of employee severance and other related expenses for employee terminations. We have adjusted the restructuring accrual in subsequent quarters in line with changes we have made to the originally planned restructuring activities (See Note 3 to Condensed Consolidated Financial Statements - Restructuring of operations). As of March 31, 2005, we have recorded a total restructuring expense, net of adjustments, of $3.3 million, consisting of $2.1 million for facilities and $1.2 million in employee severance and other related expenses.

NetManage has recorded other restructuring charges in the past as described in Note 3 to Condensed Consolidated Financial Statements - Restructuring of operations.

Because we generally ship software products within a short period after receipt of an order, we do not have a material backlog of unfilled orders, and revenues in any quarter are substantially dependent on orders booked in that quarter. Our operating expense levels are based, in part, on our expectation of future revenues and, to a large extent, are fixed. In the first quarter of 2005, operating expenses, excluding restructuring charges, declined slightly when compared to the first quarter of 2004, and may fluctuate as a percentage of net revenues on a quarterly basis.

As described herein, under the heading "Factors that may affect our future results and financial condition", acquisitions involve a number of risks, including risks relating to the integration of the acquired company' s operations, personnel, and products. There can be no assurance that the integration of previously acquired companies, or the integration of any future acquisitions, will be accomplished successfully, and the failure to effectively accomplish any of these integrations could have a material adverse effect on our results of operations and financial condition.

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Three months ended March 31, 2005 compared to March 31, 2004 (in thousands):

	Three months ended March 31,			
	2005	2004	Change	
Net revenues				
License fees	$5,322	$4,790	$532	11 %
Services	6,802	7,090	(288)	-4 %
Total net revenues	12,124	11,880	244	2 %
As a percentage of net revenues:				
License fees	43.9 %	40.3 %		
Services	56.1 %	59.7 %		
Total net revenues	100.0 %	100.0 %		
Gross margin - license fees	$4,996	$4,394	$602	14 %
Gross margin – services	5,964	6,176	(212)	-3 %
Gross margin - amortization of developed technology	(70)	(253)	183	-72 %
Total gross margin	$10,890	$10,317	$573	6 %
As a percentage of net revenues:				
Gross margin - license fees	41.2 %	37.0 %		

Gross margin - services	49.2 %	52.0 %		
Gross margin - amortization of developed technology	-0.6 %	-2.1 %		
Total gross margin	89.8 %	86.9 %		
Research and development	$1,937	$1,785	$152	9 %
As a percentage of net revenues:	16.0 %	15.0 %		
Sales and marketing	$5,639	$5,541	$98	2 %
As a percentage of net revenues:	46.5 %	46.6 %		
General and administrative	$2,438	$2,866	$(428)	-15 %
As a percentage of net revenues:	20.1 %	24.1 %		
Restructuring charge, net	$73	$(167)	$240	-144%
As a percentage of net revenues:	0.6 %	-1.4 %		
Amortization of intangibles	$115	$150	$(35)	-23 %
As a percentage of net revenues:	0.9 %	1.3 %		
Interest income (expense) and other, net	$66	$49	$17	35 %
As a percentage of net revenues:	0.5 %	0.4 %		
Foreign currency transaction gains (losses)	$71	$(572)	$643	-112%
As a percentage of net revenues:	0.6 %	-4.8 %		

Provision for income taxes	$17	$50	$(33)	-66 %
As a percentage of net revenues:	N/A (1)	N/A (1)		
Net income (loss)	$808	$(431)	$1,239	-288%
As a percentage of net revenues:	6.7 %	-3.6 %		

(1) The effective tax rate for the three month period ended March 31, 2005 and 2004 was 2% or less due to the consolidated tax loss position.

Net revenues

Our revenues are derived from the sale of software licenses and related services, which include maintenance and support, consulting and training services. License fees are earned under software license agreements with end-users and resellers and are recognized as revenue upon delivery of the software if the following criteria are met: persuasive evidence of an arrangement exists, collection of the resulting receivable is probable and the fee is fixed and determinable. For arrangements with multiple elements (for example, undelivered maintenance and support), the Company allocates revenue to each element of the arrangement using the residual value method based on vendor-specific objective evidence (VSOE) of the fair value of the undelivered elements. Certain of our sales are made to domestic distributors under agreements allowing right-of-return and price protection on unsold merchandise. Accordingly, we defer recognition of such sales until the distributor sells the merchandise. Our international distributors do not have return rights and, as such, we generally recognize sales to international distributors upon shipment, if all other revenue recognition criteria have been met.

Services revenues are derived from software updates for existing software products, user documentation and technical support, generally under annual service agreements. These revenues are recognized ratably over the terms of such agreements. If the services are included in the initial licensing fee, the fair value of the services is unbundled and recognized ratably over the related service period. Service revenues derived from consulting and training are deferred and subsequently recognized when the services are performed, and the collection is deemed probable.

Net revenues increased 2% for the three months ended March 31, 2005 as compared to the same period in 2004. The increase in net revenues resulted from an increases in license fees of $523,000, or 11% and was partially offset by a decline in services revenues of $288,000, or 4%. License fees represented 44% of our net revenues in the first quarter of 2005 compared to 40% of net revenues in the first quarter of 2004. The increase in our license fees for the three months ended March 31, 2005 was primarily the result of the inclusion of Librados products which represented approximately 60% of the increase in license revenues. Librados was acquired in the fourth quarter of 2004. We also believe that the continuing economic improvement, additional product offerings and, growing customer confidence contributed to the growth in license fees. We generally ship software products within a short period of time after receipt of an order and therefore we do not have a material backlog of unfilled orders.

We have operations worldwide, with sales offices located in the United States, Europe, Canada, and Israel. Revenues outside of North America (United States and Canada) as a percentage of total net revenues were approximately 27% for each of the three month periods ended March 31, 2005 and 2004.

No customer accounted for more than 10% of net revenues during the three month periods ended March 31, 2005 and 2004.

Gross margin

Gross margin increased $573,000, or 6% for the three month period ended March 31, 2005 as compared to the same period in 2004, primarily because of the increase in net revenues and the reduction in amortization of developed technology expense.

Gross margin for license fees as a percentage of net revenues increased to 41% for the three month period ended March 31, 2005 from 37% for the same period in 2004 primarily due to the increase in license fees and a reduction in fixed costs. The gross margin for services decreased to 49% for the three month period ended March 31, 2005 from 52% for the same period in 2004 due to a reduction in services revenues of 4% offset in part by a reduction in related costs.

Research and development

Research and development, or R & D, expenses consist primarily of salaries and benefits, occupancy, travel expenses, and fees paid to outside consultants. R & D expenses increased $152,000, or 1% of net revenues for the three month period ended March 31, 2005 as compared to the same period in 2004, primarily due to additional R & D for the Librados product line and incentive compensation.

Software development costs are accounted for in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,* under which we are required to capitalize software development costs after technological feasibility is established which we define as a working model and further define as a beta version of the software. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs requires considerable judgment by us with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life, and changes in technology. Costs that do not qualify for capitalization are charged to R & D expense when incurred. We did not capitalize any software development costs in the three month period ended March 31, 2005 or 2004.

Sales and marketing

Sales and marketing expenses consist primarily of salaries and commissions of sales personnel, salaries of marketing personnel, advertising and promotional expenses, and occupancy and related costs. Sales and marketing expenses increased $98,000, but decreased by 0.1%, as a percentage of net revenues for the three month period ended March 31, 2005 as compared to the same period in 2004, primarily as a result of an increase in personnel and related costs within the marketing department.

General and administrative

General and administrative, or G & A, expenses consist primarily of salaries, benefits, accounting, travel, legal, and occupancy expenses. G & A expenses decreased $428,000, or 4% as a percentage of net revenues for the three month period ended March 31, 2005 as compared to the same period in 2004 as a result of lower stock option compensation expense offset in part by other incentive compensation.

Restructuring charges

Restructuring charges consist of adjustments made to true up final payments from restructurings made in previous periods. Restructuring charges increased $240,000, or 2% as a percentage of net revenues for the three month period ended March 31, 2005 as compared to the same period in 2004, primarily due to the effect of fluctuations in exchange rates on currencies in which remaining liabilities are denominated.

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Amortization of other intangible assets

Amortization expense was $115,000 and $150,000 for the three month period ended March 31, 2005 and 2004, respectively. Amortization expense in the first quarter of 2005 related solely to the acquisition of Librados, Inc. Amortization of other intangibles is recorded on a straight-line basis over an estimated useful life from two years to five years.

Interest income (expense) and other, net

Interest income and other, net was $66,000 and $49,000 for the three month period ended March 31, 2005 and 2004, respectively. Cash balances were $2.3 million higher at March 31, 2005 than comparable balances at March 31, 2004 and money market interest rates were slightly higher during the three month period ended March 31, 2005, as compared to the same period in 2004.

Foreign currency transaction gains (losses)

For the three month period ended March 31, 2005, we recorded a transaction gain of $71,000 and for the same period in 2004, a transaction loss of $572,000. Except as noted, transaction gains and losses are attributable to fluctuations related primarily to the Israeli shekel (Shekel) in relation to the U.S. dollar (USD), the British pound (Pound) and the Euro. For the three month periods ended March 31, 2005 and 2004, the relationship of the Shekel to the USD, the Pound and the Euro was as follows:

	Three months ended March 31,	
	2005	**2004**
USD % Change	0.8 %	3.9 %
Pound % Change	-1.7 %	6.7 %
Euro % Change	-4.6 %	0.8 %

Provision for income taxes

Income taxes recorded included primarily international taxes and U.S. state taxes. The income tax provision of $17,000 for the quarter ended March 31, 2005 includes an international tax provision of $13,000 and a U.S. state tax provision of $4,000. The income tax provision of $50,000 for the quarter ended March 31, 2004 is comprised of an international tax provision of $31, 000 and a U.S. state tax provision of $19,000. Our effective tax rate for the three month period ended March 31, 2005 and 2004 was 2% or less due to the consolidated tax loss position.

Disclosures about market risk

Disclosures about market risk can be found below, under Item 3−Quantitative and qualitative disclosures about market risk.

Liquidity and capital resources

	March 31, 2005
	(in millions)

Cash and cash equivalents	$ 24.6
Short-term investments	0.2
Net cash provided by operating activities	5.1
Net cash used in investing activities	(0.3)
Net cash provided by financing activities	0.2

Since our inception, our operations have been financed primarily through cash provided by operations and sales of capital stock. Our primary financing activities to date consist of our initial and secondary public stock offerings and private preferred stock issuances, which aggregated net proceeds to us of approximately $72.5 million. The domestic and international economic events over the past three years have negatively impacted our ability to generate sufficient cash to offset our cash outflows. We have taken a number of measures to reverse this trend including restructuring our organization, reducing our operating expenses through the closing of excess facilities, subleasing excess facility space, and carefully monitoring our discretionary expenses. Our business has been and will be dependent upon the spending of our customers and their respective IT organizations.

During the three month period ended March 31, 2005, our aggregate cash and cash equivalents, and short-term investments increased from $19.8 million to $24.8 million. This increase was due primarily to collection of receivables of $7.4 million reduced by net payment of accounts payables, accrued liabilities and payroll of $2.1 million.

At March 31, 2005, we had working capital of $11.1 million. We believe that our current cash balance and future operating cash flows will be sufficient to meet our working capital needs, capital expenditure requirements and complete currently identified projects and planned objectives for at least the next 12 months.

If our credit rating was to change materially, it could impact our ability to enter into transactions with new and existing customers and subsequently have an impact on our cash position. We do not anticipate a material change in our credit rating or rating outlook.

Contractual obligations

A table of our contractual obligations as of March 31, 2005 is included in Note 4 to Condensed Consolidated Financial Statements - Commitments and contingencies.

Off-balance sheet arrangements

As of March 31, 2005, we did not engage in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K promulgated by the Commission under the Securities Exchange Act of 1934, as amended. We do not have external debt financing. We do not issue or purchase derivative instruments or use our stock as a form of liquidity.

Critical accounting policies

Reference is made to “Critical Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the SEC on March 22, 2005. As of the date of the filing of this Quarterly Report, we have not identified any critical accounting policies other than those discussed in our Annual Report for the year ended December 31, 2004.

Factors that may affect our future results and financial condition

Our business is subject to a number of risks and uncertainties. You should carefully consider the risks described below, in addition to the other information contained in this Report and in our other filings with the SEC. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose part or all of your investment.

Our operating results have fluctuated significantly in the past and may continue to do so in the future, which could cause our stock price to decline.

We have experienced, and expect to experience in future periods, significant fluctuations in operating results that may be caused by many factors including, among others:

- general economic conditions, in particular, the slowdown of purchases of information technology due to current economic conditions in North America and internationally;
- changes in the demand for our products;
- introduction or enhancements to our products and those of our competitors;
- technological changes in computer networking;
- competitive pricing pressures;
- market acceptance of new products;
- customer order deferrals in anticipation of new products and product enhancements;
- the size and timing of individual product orders;
- mix of international and domestic revenues;
- mix of distribution channels through which our products are sold;
- loss of, or failure to enter into, strategic alliances to develop or promote our products;
- quality control of our products;
- changes in our operating expenses;
- personnel changes;
- foreign currency exchange rates;
- seasonality; and
- adverse business conditions in specific industries.

In addition, our acquisition of complementary businesses, products or technologies has in the past caused and may continue to cause fluctuations in our operating results due to in-process research and development charges, the amortization of acquired intangible assets, and integration costs recorded in connection with acquisitions.

Since we generally ship software products within a short period of time after receipt of an order, we do not typically have a material backlog of unfilled orders, and our revenues in any one quarter are substantially dependent on orders booked in that quarter and particularly in the last month of that quarter. Our expenses are based in part on our expectations as to future revenues and to a large extent are fixed. Therefore, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in demand for our products in relation to our expectations or any material delay of customer orders would have an almost immediate adverse impact on our operating results and on our ability to achieve profitability.

As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Fluctuations in our operating results have caused, and may in the future cause us to perform below the expectations of public market analysts and investors. If our operating results fall below market expectations, the price of our common stock may fall.

We have only been profitable in one year since 1995 and may never achieve profitability in the future which would weaken our financial condition.

With the exception of the net income reported for 2004, we have not achieved profitability on an annual basis since 1995 and we may never obtain sufficient revenues to sustain profitability in any future period. In addition, we cannot be certain that we can increase profitability, particularly to the extent that we face price competition. As a result, we will need to generate significant revenues to attain profitability. Increasing competition may cause our prices to decline, which would harm our operating results. We anticipate that the prices for our software products may decline over the next few years. We expect to face increased competition in markets where we sell our products, which will make it more difficult to increase or maintain our prices and profit margins. If anticipated increases in sales volume do not keep pace with anticipated pricing pressures, our revenues would decline and our business could be harmed. Despite our efforts to introduce enhancements to our products, we may not be successful in maintaining our pricing.

We rely significantly on third parties for sales of our products and our revenues could decline significantly with little or no notice.

We rely significantly on our independent distributors and value-added resellers for certain elements of the marketing and distribution of our products. The agreements in place with these organizations are generally non-exclusive, of limited duration, are terminable with little or no notice by either party and generally do not contain minimum purchase requirements. There can be no assurance that we will be able to attract or retain distributors and resellers who will be able to market our products effectively. These distributors of our products are not within our control and generally represent competing product lines of other companies in addition to our products. There can be no assurance that these organizations will give a high priority to the marketing of our products, and they may give a higher priority to the products of our competitors.

Furthermore, our results of operations can also be materially adversely affected by changes in the inventory strategies of our resellers, which can occur rapidly and may not be related to end-user demand. As part of our continued strategy of selling through multiple distribution channels, we expect to continue using indirect distribution channels, particularly value-added resellers and system integrators, in addition to distributors and original equipment manufacturers. Indirect sales may grow as a percentage of both domestic and total net revenues during 2005 and beyond, as a result of acquisitions or increased market penetration. Any material increase in our indirect sales as a percentage of revenues may adversely affect our average selling prices and gross margins due to lower unit costs that are typically charged when selling through indirect channels. There can be no assurance that we will be able to attract or retain resellers and distributors who will be able to market our products effectively, qualified to provide timely and cost-effective customer support and service, or will continue to represent our products. If we are unable to recruit or retain important resellers or distributors or if they decrease their sales of our products, we may suffer a material adverse effect on our business, financial condition or results of operations.

We have undergone significant restructurings, which may have a material adverse effect on our operating results.

We undertook restructurings of our operations in August 2000, August 2002 and again in January 2003. These restructuring plans involved reductions in our worldwide workforce and the consolidation of certain of our sales, customer support, and research and development operations. We have also had to write-down assets as part of the restructuring effort that lowered our operating results. These restructuring plans may not be successful and may not improve future operating results. We may also be required to implement additional restructuring plans in the future.

We may not be able to successfully make acquisitions of or investments in other companies or technologies which could limit our future growth and access to technology.

We have limited experience in acquiring or making investments in companies, technologies or services. We regularly evaluate product and technology acquisition opportunities and anticipate that we may make additional acquisitions in the future if we determine that an acquisition would further our corporate strategy. Acquisitions in our industry are particularly difficult to assess because of the rapidly changing technological standards in our industry. If we make any acquisitions, we will be required to assimilate the personnel, operations and products of the acquired business and train, retain and motivate key personnel from the acquired business. However, the key personnel of the acquired business may decide not to work for us. In addition we may not be successful in the integration of product lines and customers of an acquired company. Moreover, if the operations of an acquired company or business do not meet our expectations, we may be required to restructure the acquired business, or write-off the value of some or all of the assets of the acquired business. No assurance can be given that any acquisition by us will or will not occur, that if an acquisition does occur, that it will not materially and adversely affect us or that any such acquisition will be successful in enhancing our business.

We are dependent upon our key management and employees for our future success and few of our key managers and employees are obligated to stay with us.

Our success depends in part on our ability to attract and retain key senior management and certain other personnel. Many of our key employees are employed on an at-will basis. If any of our key employees left or were unable to work and we were unable to find a suitable replacement, then our business, financial condition and results from operations could be materially harmed.

We face significant competition and competition in our market is likely to increase and could harm our business.

The markets for our products are intensely competitive and characterized by rapidly changing technology, evolving industry standards, consolidation amongst competitors, price erosion, changes in customers' needs, and frequent new product introductions. We anticipate continued growth and competition in our industry and the entrance of new competitors into our markets, and accordingly, the markets for our products will remain intensely competitive. We expect that competition will increase in the near term and that our primary long-term competitors may not yet have entered the market. Several key factors contribute to the continued growth of our marketplaces including the proliferation of Microsoft Windows client server technology and the continued implementation of web-based access to corporate mainframe and mid-range computer systems. Our connectivity software products compete with major computer and communication systems vendors, including Microsoft, IBM, BEA, Computer Associates International, Inc. and Sun Microsystems, Inc., as well as smaller networking software companies such as Jacada Ltd., Seagull Holding HV, and Hummingbird Ltd. We also face competition from makers of terminal emulation software such as Attachmate Corporation, and WRQ, Inc., who have recently announced their combination, and with respect to adapters, we face competition from iWay and Attunity Ltd.

Many of our current competitors have, and many of our future competitors may have, substantially greater financial, technical, sales, marketing and other resources, in addition to greater name recognition and a larger customer base than us. The markets for our products are characterized by significant price competition and we anticipate that we will face increasing pricing pressures from our competitors in the future. In addition, our current and future competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than we can. Increased competition could result in price reductions, fewer customer orders, reduced gross profit margins and loss of market share, any of which could harm our business.

Furthermore, our competitors could seek to expand their product offerings by designing and selling products using technology that could render obsolete or adversely affect sales of our products. These developments may adversely affect sales of our products either by directly affecting customer-purchasing decisions or by causing potential customers to delay their purchases of our products. Several of our competitors have developed proprietary networking applications and certain of such vendors, including Novell, provide a TCP/IP protocol suite in their products at little or no additional cost. In particular, Microsoft has embedded a TCP/IP protocol suite in its Windows 98, Windows 2000, Windows ME, Windows NT, Windows XP, and Windows .NET operating systems. We have products, which are similar to connectivity products marketed by Microsoft. Microsoft is expected to increase development of such products, which could have a material adverse effect on our business, financial condition or results of operations.

If we fail to manage technological change, respond to consumer demands or evolving industry standards or if we fail to enhance our products' interoperability with the products of our customers, demand for our products will decrease and our business will suffer.

From time to time, many of our customers have delayed purchase decisions due to confusion in the marketplace relating to rapidly changing technology and product introductions. To maintain or improve our position in this industry, we must successfully develop, introduce, and market new products and product enhancements on a timely and cost-effective basis. We have experienced difficulty from time to time in developing and introducing new products and enhancing existing products, in a manner which satisfies customer requirements and changing market demands. Any failure by us to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in product development or introduction, could have a material adverse effect on our business, financial condition, and results of operations. The failure to develop products or product enhancements incorporating new functionality on a timely basis could cause customers to delay purchase of our current products or cause customers to purchase products from our competitors; either situation would adversely affect our business, financial condition, and results of operations. We may not be successful in developing new products or enhancing our existing products on a timely basis, and any new products or product enhancements developed by us may not achieve market acceptance. In addition, we incorporate software and other technologies owned by third parties and as a result, we are dependent upon such third parties' ability to enhance their current products, to develop new products that will meet changing customer needs on a timely and cost-effective basis, and to respond to emerging industry standards and other technological changes.

We depend upon technology licensed from third parties, and if we do not maintain these license arrangements we will not be able to ship many of our products and our business will be seriously harmed.

Certain of our products incorporate software and other technologies developed and maintained by third parties. We license these technologies from third parties under agreements with a limited duration and we may not be able to maintain these license arrangements. If we fail to maintain our license arrangements or find suitable replacements, we would not be able to ship many of our products and our business would be materially harmed. For example, we have a license agreement with Dartcom Incorporated, renewable annually, for Power TCP Telnet and Power TCP VT320, which we use in our OnWeb product line. There can be no assurance that we would be able to replace the functionality provided by the third-party technologies currently offered in conjunction with our products if those technologies become unavailable to us or obsolete or incompatible with future versions of our products or market standards.

We depend upon the compatibility of our products with applications operating on Microsoft Windows to sell our products.

A significant portion of our net revenues have been derived from the sales of products that provide inter-networking applications for the Microsoft Windows environment and are marketed primarily to Windows users. As a result, sales of certain of our products would be negatively impacted by developments adverse to Microsoft Windows products. As well, if competing technologies such as Linux are successful in negatively impacting Microsoft' s success, our ability to sell our products would be further limited. In addition, our strategy of developing products based on the Windows operating environment is substantially dependent on our ability to gain pre-release access to, and to develop expertise in, current and future Windows developments by Microsoft. We have no agreement with Microsoft giving us pre-release access to future Windows products. If we are unable to gain such access our ability to develop new products compatible with future Windows release in a timely manner could be harmed. Also, we have products which are similar to functionality included in some Microsoft products. Microsoft is expected to increase development of such products, which could have a material adverse effect on our business, financial condition or results of operations.

We depend upon the compatibility of our products with applications operating on UNIX platforms to sell our products.

A small percentage of our net revenues have been derived from the sales of products that provide inter-networking applications for UNIX environments, including Linux and Solaris and are marketed primarily to the Fortune 1000 companies running UNIX platforms as their servers. As a result, sales of certain of our products would be negatively impacted by developments adverse to UNIX products or developments in the Open Source community based around Linux adverse to our own Linux-based products. In addition, our strategy of developing products based on the UNIX operating environment is substantially dependent on our ability to gain pre-release access to, and to develop expertise in, current and future UNIX developments by various companies including IBM, Hewlett-Packard and Sun. No agreement exists between developers of UNIX operating systems and us to provide pre-release access to future UNIX products. If we are unable to gain such access our ability to develop new products compatible with future UNIX product releases in a timely manner could be harmed.

The loss of any of our strategic relationships would make it more difficult to keep pace with evolving industry standards and to design products that appeal to the marketplace.

Our future success depends on our ability to maintain and enter into new strategic alliances and OEM relationships to develop necessary products or technologies, to expand our distribution channels or to jointly market or gain market awareness for our products. We currently rely on strategic relationships, such as those with Microsoft to provide us with state of the art technology, assist us in integrating our products with leading industry applications and help us make use of economies of scale in manufacturing and distribution. However, we do not have written agreements with many of our strategic partners and cannot ensure these relationships will continue for a significant period of time. Many of our agreements with these partners are informal and may be terminated by them at any time. There can be no assurance that we will be successful in maintaining current alliances or developing new alliances and relationships or that such alliances and relationships will achieve their intended purposes.

We may be subject to product returns, product liability claims and reduced sales because of defects in our products which could reduce our revenues and otherwise adversely affect our financial results.

Software products as complex as those offered by us may contain undetected errors or failures when first introduced or as new versions are released. The likelihood of errors is higher when a new product is introduced or when new versions or enhancements are released. Errors may also arise as a result of defects in third-party products or components, which are incorporated, into our products. There can be no assurance that, despite testing by us and by current and potential customers, errors will not be found in new products or product enhancements after commencement of commercial shipments, which could result in loss of or delay in market acceptance. We may be required to devote significant financial resources and personnel to correct any defects. Known or unknown errors or defects that affect the operation of our products could result in the following, any of which could have a material adverse effect on our business, financial condition, and results of operations:

delay or loss or revenues;

- cancellation of a purchase order or contract due to defects;
- diversion of development resources;
- damage to our reputation;
- failure of our products to achieve market acceptance;
- increased service and warranty costs; and
- litigation costs.

Although some of our licenses with customers contain provisions designed to limit our exposure to potential product liability claims, these contractual limitations on liability may not be enforceable or may only limit, rather than eliminate potential liability. In addition, our product liability insurance may not be adequate to cover our losses in the event of a product liability claim resulting from defects in our products and may not be available to us in the future.

Our business depends upon licensing our intellectual property, and if we fail to protect our proprietary rights, our business could be harmed.

Our ability to compete depends substantially upon our internally developed proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions to protect our proprietary rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws and contractual confidentiality agreements, which afford only limited protection, and, to a lesser extent, patent laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products and technology is difficult and, while we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. There can be no assurance that our means of protecting our proprietary rights will be adequate, or our competitors will not independently develop similar technology. In selling a portion of our products, we rely primarily on "click-wrap" licenses that are not signed by licensees and, therefore, may be unenforceable under the laws of certain jurisdictions. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. If we are not successful in protecting our intellectual property, our business could be substantially harmed.

We rely upon our patents, trademarks, copyrights and trade secrets to protect our proprietary rights, but they may be only of limited value as we may not be able to prevent misappropriation of our technology.

There can be no assurance that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology. In addition, the number of patents applied and granted for software inventions is increasing. Despite any precautions which we have taken:

- laws and contractual restrictions may not be sufficient to prevent misappropriation of our technology or deter others from developing similar technologies;
- other companies may claim common law trademark rights based upon state or foreign law which precede our federal registration of such marks; and
- current federal laws that prohibit software copying provide only limited protection from software "pirates," and effective trademark, copyright and trade secret protection may be unavailable or limited in certain foreign countries.

Our pending patent applications may never be issued, and even if issued, may provide us with little protection.

We regard the protection of patentable inventions as important to our business. However, it is possible that:

- our pending patent applications may not result in the issuance of patents;
- our patents may not be broad enough to protect our proprietary rights;
- any issued patent could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in those patents;

current and future competitors may independently develop similar technology, duplicate our products or design around any of our patents; and effective patent protection, if any, may not be available in every country in which we do business.

If we are not successful in asserting our patent rights, our business could be substantially harmed. At the present time, we have one patent pending and 14 patents issued from the U.S. Patent Office.

We have received notices of claims that may result in litigation and we may become involved in costly and time-consuming litigation over proprietary rights.

Substantial litigation regarding intellectual property rights exists in our industry. We expect that software in our industry may be increasingly subject to third party infringement claims as the number of competitors grows and the functionality of products in different areas of the industry overlaps. Third parties may currently have, or may eventually be issued, patents that would be infringed by our products or technology. We cannot be certain that any of these third parties will not make a claim of infringement against us with respect to our products and technology. We have received, and may receive in the future, communications from third parties asserting that our products infringe, or may infringe, the proprietary rights of third parties seeking indemnification against such infringement or indicating that we may be interested in obtaining a license from such third parties. Any claims or actions asserted against us could result in the expenditure of significant financial resources and the diversion of management' s time and efforts. In addition, litigation in which we are accused of infringement may cause product shipment delays, require us to develop non-infringing technology or require us to enter into royalty or license agreements even before the issue of infringement has been decided on the merits. If any litigation were not to be resolved in our favor, we could become subject to substantial damage claims and be prohibited from using the technology at issue without a royalty or license agreement. These royalty or license agreements, if required, might not be available on acceptable terms, or at all, and could result in significant costs and harm our business. If a successful claim of infringement is made against us and we cannot develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be significantly harmed.

Our business is subject to risks from international operations such as legal uncertainty, tariffs, trade barriers and political and economic instability which could restrict our ability to compete effectively.

We derived approximately 27% of our net revenues from sales outside of North America (United States and Canada) for each of the three month periods ended March 31, 2005 and 2004. While we expect that international sales will continue to account for a significant portion of our net revenues, there can be no assurance that we will be able to maintain or increase international market demand for our products or that our sales offices and distributors will be able to effectively meet that demand. Risks inherent in our international business activities generally include, among others:

- unexpected changes in regulatory requirements;
- legal uncertainty, particularly regarding intellectual property rights and protection;
- costs and risks of localizing products for foreign countries;
- longer accounts receivable payment cycles;
- language barriers in business discussions;
- cultural differences in the negotiation of contracts and conflict resolution;
- time zone differences;
- the limitations imposed by U.S. export laws (see Government Regulation and Legal Uncertainties below);
- changes in markets caused by a variety of political, social and economic factors;
- tariffs and other trade barriers;
- difficulties in managing international operations;
- currency exchange rate fluctuations;
- potentially adverse tax consequences;
- repatriation of earnings; and
- the burdens of complying with a wide variety of foreign laws.

Many of our customers are subject to many of the risks described above. These factors may have an adverse effect on our international sales and, consequently, on our business, financial condition or results of operations.

Terrorist attacks and threats or actual war could adversely affect our operating results and the price of our common stock.

The terrorist attacks in the United States, the United States response to these attacks, the current instability in Iraq, and the related decline in consumer confidence and continued economic weakness have had an adverse impact on our operations. Consumer reports indicate that consumer confidence is at some of the lowest levels since 1993. If consumer confidence continues to decline or does not recover, our revenues and results of operations may continue to be adversely impacted in 2005 and beyond. Any escalation in these events or similar future events may disrupt our operations or those of our customers. These events have had and may continue to have an adverse impact on the United States and world economies in general and consumer confidence and spending in particular, which has and could continue to harm our sales. Any of these events could increase volatility in the United States and worldwide financial markets and economies, which could harm our stock price and may limit the capital resources available to us and our customers. This could have a significant impact on our operating results, revenues and costs and may result in increased volatility in the market price of our common stock and on the future price of our common stock.

It may be difficult to raise needed capital in the future, which could significantly harm our business by limiting our ability to grow or make acquisitions.

We may require substantial additional capital to finance growth, acquisitions and fund ongoing operations in future years. Our capital requirements will depend on many factors including, among other things:

- our results of operations;
- acceptance of and demand for our products;
- the number and timing of any acquisitions and the cost of these acquisitions;
- the costs of developing new products;
- the costs associated with our refocusing on core products and technologies; and
- the extent to which we invest in new technology and research and development projects.

Although our current business plan does not foresee the need for further financing activities to fund our operations for the foreseeable future, due to risks and uncertainties in the marketplace as well as a potential of pursuing further acquisitions, we may need to raise additional capital. If we issue additional stock to raise capital, current percentage ownership in NetManage would be diluted. If we raise capital through debt; our debt servicing costs will increase. Additional financing may not be available when needed and, if such financing is available, it may not be available on terms favorable to us.

Because of their significant stock ownership, our officers and directors can exert significant control over our future direction.

As of April 21, 2005, our officers, directors and entities affiliated with them, in the aggregate, beneficially owned approximately 2.2 million shares, or 24% of our outstanding common stock. These stockholders, if acting together, would be able to exert significant influence on all matters requiring approval by our stockholders, including the election of directors, the approval of mergers or other business combination transactions or a sale of all or substantially all of our assets.

Certain provisions of our stock option plan, our stockholder rights plan and our certificate of incorporation and bylaws make changes of control difficult even if they would be beneficial to stockholders.

Our 1992 Stock Option Plan and our 1999 Non-statutory Stock Option Plan provide that, in the event of a change of control of NetManage, all options outstanding under those plans would become fully vested and exercisable for at least 10 days prior to the consummation of such change of control transaction. These accelerations of vesting provisions would increase the cost to any potential acquirer and could have the effect of deterring or reducing the per share price paid to purchase NetManage.

In addition, our board of directors has the authority without any further vote or action on the part of the stockholders to issue up to 1,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions of the preferred stock. This preferred stock, if it is ever issued, may have preference over and harm the rights of the holders of our common stock. Although the issuance of this preferred stock will provide us with flexibility in connection with possible acquisitions and other corporate purposes, the issuance of the preferred stock may make it more difficult for a third party to acquire a majority of our outstanding voting stock. We currently have no plans to issue preferred stock.

Our certificate of incorporation and bylaws include provisions that may have the effect of deterring an unsolicited offer to purchase our stock. In addition, we have implemented a stockholder rights plan that could deter or at least make it significantly more expensive for an unsolicited offer to purchase our stock. These provisions, coupled with the provisions of the Delaware General Corporation Law, may delay or impede a merger, tender offer or proxy contest involving us. Furthermore, our board of directors is divided into three classes, only one of which is elected each year. Directors are only capable of being removed by the affirmative vote of two thirds or greater of all classes of voting stock. These factors may further delay or prevent a change of control.

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We face risks from the uncertainties of current and future governmental regulation which could have a negative impact on our ability to operate our business.

We are not currently subject to direct regulation by any government agency, other than regulations applicable to businesses generally, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet, it is possible that various laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, pricing and characteristics and quality of products and services. The adoption of any such laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our products, increase our cost of doing business or otherwise have an adverse effect on our business, financial condition or results of operations. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, libel and personal privacy is uncertain. Further, due to the encryption technology contained in certain of our products, such products are subject to U.S. export controls. There can be no assurance that such export controls, either in their current form or as may be subsequently enacted, will not limit our ability to distribute products outside of the United States or electronically. While we take precautions against unlawful exportation, there can be no assurance that inadvertent violations will not occur, and the global nature of the Internet makes it virtually impossible to effectively control the distribution of our products. In addition, future federal or state legislation or regulation may further limit levels of encryption or authentication technology. Any such export restriction, new legislation or regulation or unlawful exportation could have a material adverse effect on our business, financial condition, or results of operations.

Our acquisitions may have a material adverse effect on our operating results and financial condition.

We acquired Librados, Inc. in the fourth quarter of 2004 and have made a number of acquisitions in the last ten years. These acquisitions were motivated by various factors, including the desire to obtain new technologies, expand and enhance our product offerings, expand our customer base, attract key personnel, and strengthen our presence in the international and OEM marketplaces. Product and technology acquisitions entail numerous risks, including:

- the diversion of management' s attention away from day-to-day operations;
- difficulties in the assimilation of acquired operations and personnel (such as sales, engineering, and customer support);
- the integration of acquired products with existing product lines;
- the failure to realize anticipated benefits of cost savings and synergies;
- the loss of customers;
- undisclosed liabilities;
- adverse effects on reported operating results;
- the amortization of acquired intangible assets;
- the loss of key employees; and
- the difficulty of presenting a unified corporate image.

Standards for compliance with section 404 of the Sarbanes-Oxley Act of 2002 are new and complex, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. This requirement may first apply to our Annual Report on Form 10-K for the fiscal year ending December 31, 2005 based on market capitalization on June 30, 2005. The standards that must be met for management to assess the internal controls over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal controls over financial reporting. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal controls over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

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Increased costs associated with corporate governance compliance may significantly impact the results of our operations.

Changing laws, regulations, and standards relating to corporate governance, public disclosure, and compliance practices, including the Sarbanes-Oxley Act of 2002, new SEC regulations, and NASDAQ National Market rules, are creating uncertainty for companies such as ours in understanding and complying with these laws, regulations, and standards. As a result of this uncertainty and other factors, devoting the necessary resources to comply with evolving corporate governance and public disclosure standards may result in increased general and administrative expenses and a diversion of management time and attention to compliance activities. We also expect these developments to increase our legal compliance and financial reporting costs. In addition, these developments may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain such coverage. Moreover, we may not be able to comply with these new rules and regulations on a timely basis.

These developments could make it more difficult for us to retain qualified members of our board of directors or executive officers. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing and magnitude of additional costs we may incur as a result. To the extent these costs are significant, our general and administrative expenses are likely to increase.

Item 3−Quantitative and qualitative disclosures about market risk.

Disclosures about market risk

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We place our investments with high credit quality issuers and, by policy, limit our credit exposure with any one issuer. As stated in our policy, we are averse to principal loss, and seek to preserve our invested funds by limiting default risk, liquidity risk, and territory risk.

We mitigate default and liquidity risks by investing only in high credit quality securities, and by positioning our portfolio to respond appropriately to a significant reduction in the credit rating of any investment issuer or guarantor. To ensure portfolio liquidity the portfolio includes only marketable securities with active secondary or resale markets. We mitigate territory risk by only allowing up to 25% of the portfolio to be placed outside of the United States.

Foreign currency risk

We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets and liabilities in currencies other than the U.S. dollar. We transact business in approximately ten foreign currencies worldwide, of which the most significant to our operations are the Euro, the Canadian dollar, the Israeli shekel, and the British pound. For most currencies, we are the net receiver of foreign currencies and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to those foreign currencies in which we transact significant amounts of business. The net results of the transaction gains or losses appear in the line entitled foreign currency transaction gains (losses) in the Condensed Consolidated Statements of Operations. At the end of each period, the translation of Condensed Consolidated Balance Sheets from local currency to the group currency appear in the Condensed Consolidated Statements of Comprehensive Income under the foreign currency translation adjustments line.

The following table presents the potential impact on cash flow of changes in exchange rates as noted (in thousands):

		Cash flow impact on change in exchange rates			
	Fair Value as of March 31, 2005	**-15% Change**	**-10% Change**	**+10% Change**	**+15% Change**
Accounts receivable (1)	$ 8,929	$(716)	$(451)	$369	$529

Accounts payable (1)	(1,702)	156	98	(80)	(115)
Inter-company with U.S. (2)	(2,184)	527	332	(272)	(390)

(1) The offset entry for this change in exchange rates would be to Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets.

(2) This assumes the change in exchange rates applies only to the relationship between the U.S. dollar and the local currency as of March 31, 2005 and that there is no change in rates between the various non U.S. dollar currencies. The offset entry for this change in exchange rates would be to Foreign currency transaction gains (losses) in the Condensed Consolidated Statements of Operations.

Item 4. Controls and procedures

Evaluation of disclosure controls and procedures.

As of the end of the period covered by this filing, we performed an evaluation under the supervision and with the participation of NetManage' s management, including NetManage' s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of NetManage' s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. An internal control system is designed to provide reasonable, but not absolute, assurance that the objectives of the control system are met, including, but not limited to, ensuring that transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported. Following that evaluation, NetManage' s management, including the Chief Executive Officer and Chief Financial Officer, concluded that based on the evaluation, the design and operation of NetManage' s disclosure controls and procedures were effective at that time to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Changes in internal controls.

There have been no changes in our internal controls during the most recent fiscal quarter covered by this report, or in any other factors that could affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses, that have affected or are reasonably likely to materially affect our internal control over financial reporting during NetManage' s most recent fiscal quarter covered by this report.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this item is incorporated herein by reference from the information contained in our Form 10-K for the fiscal year ended December 31, 2004 under the caption "Legal Proceedings".

In addition, the Company may be contingently liable with respect to certain asserted and unasserted claims that arise during the normal course of business. Management believes the impact, if any, resulting from these matters would not have a material impact on the Company' s financial statements.

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

We made no repurchases of our common stock during the three month period ended March 31, 2005. In addition, we made no sales of unregistered securities during the three month period ended March 31, 2005.

Item 3. Defaults upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

We file electronically with the Securities and Exchange Commission ("SEC") our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the 1934 Act. The public may read or copy any materials we file with the SEC at the SEC' s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http:// www.sec.gov.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

32.1 Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

NETMANAGE, INC.
(Registrant)

DATE: May 2, 2005

By: /s/ Michael R. Peckham
Michael R. Peckham
Chief Financial Officer and Senior Vice President
(On behalf of the registrant and as Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

OFFICER CERTIFICATION PURSUANT TO RULE 13a-14(a)

I, Zvi Alon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NetManage, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation, and

c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting.

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information, and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

DATE: May 2, 2005

/s/ Zvi Alon

Zvi Alon

Chief Executive Officer

OFFICER CERTIFICATION PURSUANT TO RULE 13a-14(a)

I, Michael R. Peckham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NetManage, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
b) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation, and
c) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting.

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information, and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: May 2, 2005

/s/ Michael R. Peckham

Michael R. Peckham

Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Zvi Alon, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of NetManage, the Periodic Report, for the period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

By: /s/ Zvi Alon

Name: Zvi Alon

Title: Chief Executive Officer

Dated: May 2, 2005

I, Michael Peckham, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of NetManage, the Periodic Report, for the period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

By: /s/ Michael R. Peckham

Name: Michael R. Peckham

Title: Chief Financial Officer

Dated: May 2, 2005