PTC INC.
Form 10-Q
February 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 December 29, 2012
Commission File Number: 0-18059

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

Massachusetts (State or other jurisdiction of incorporation or organization)	04-2866152 (I.R.S. Employer Identification Number)

140 Kendrick Street, Needham, MA 02494
(Address of principal executive offices, including zip code)
(781) 370-5000
(Registrant's telephone number, including area code)
Parametric Technology Corporation

(Former name, former address and former fiscal year, if changed since last report)

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 þ No ¨

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

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

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

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

There were 119,857,129 shares of our common stock outstanding on February 4, 2013.

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PART I—FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

PTC Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	December 29, 2012	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$248,392	$489,543
Accounts receivable, net of allowance for doubtful accounts of $3,442 and $3,418 at December 29, 2012 and September 30, 2012, respectively	221,687	217,370
Prepaid expenses	33,727	28,341
Other current assets	94,672	121,019
Deferred tax assets	35,020	22,879
Total current assets	633,498	879,152
Property and equipment, net	66,109	63,466
Goodwill	755,075	610,347
Acquired intangible assets, net	292,925	185,885
Deferred tax assets	20,671	20,660
Other assets	34,368	32,124
Total assets	$1,802,646	$1,791,634
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	66,820	65,517
Accrued compensation and benefits	79,567	92,212
Accrued income taxes	7,156	804
Deferred tax liabilities	537	402
Current portion of long term debt	5,625	7,500
Deferred revenue	293,615	315,309
Total current liabilities	453,320	481,744
Long term debt, net of current portion	362,500	362,500
Deferred tax liabilities	46,736	31,854
Deferred revenue	9,492	12,220
Other liabilities	104,640	106,057
Total liabilities	976,688	994,375
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 500,000 shares authorized; 119,888 and 119,553 shares issued and outstanding at December 29, 2012 and September 30, 2012, respectively	1,199	1,196
Additional paid-in capital	1,810,086	1,822,698
Accumulated deficit	(918,322)	(954,134)
Accumulated other comprehensive loss	(67,005)	(72,501)

Total stockholders' equity	825,958	797,259
Total liabilities and stockholders' equity	$1,802,646	$1,791,634

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

PTC Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three months ended December 29, 2012	December 31, 2011
Revenue:		
License	$79,185	$89,088
Service	76,760	75,627
Support	163,806	153,561
Total revenue	319,751	318,276
Cost of revenue:		
Cost of license revenue	8,012	7,659
Cost of service revenue	68,592	71,450
Cost of support revenue	20,468	19,110
Total cost of revenue	97,072	98,219
Gross margin	222,679	220,057
Sales and marketing	93,549	97,778
Research and development	57,429	54,993
General and administrative	35,817	29,572
Amortization of acquired intangible assets	6,623	5,209
Restructuring charges	15,402	—
Total operating expenses	208,820	187,552
Operating income	13,859	32,505
Interest and other (expense) income, net	(1,805)	(2,643)
Income before income taxes	12,054	29,862
(Benefit) provision for income taxes	(23,757)	7,739
Net income	$35,811	$22,123
Earnings per share—Basic	$0.30	$0.19
Earnings per share—Diluted	$0.29	$0.18
Weighted average shares outstanding—Basic	119,927	117,715
Weighted average shares outstanding—Diluted	121,805	120,576

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

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PTC Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three months ended December 29, 2012	December 31, 2011
Net income	$35,811	$22,123
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	5,465	(5,070)
Minimum pension liability adjustment	31	145
Other comprehensive income (loss)	5,496	(4,925)
Comprehensive income	$41,307	$17,198

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

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PTC Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three months ended December 29, 2012	December 31, 2011
Cash flows from operating activities:		
Net income	$35,811	$22,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,477	17,026
Stock-based compensation	11,893	13,382
Excess tax benefits from stock-based awards	(28)	(150)
Other non-cash items, net	28	101
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	16,142	13,295
Accounts payable and accrued expenses	(6,215)	(9,179)
Accrued compensation and benefits	(21,743)	(23,677)
Deferred revenue	(3,534)	(2,075)
Accrued and deferred income taxes	(33,779)	(2,409)
Other current assets and prepaid expenses	1,345	7,884
Other noncurrent assets and liabilities	(5,761)	164
Net cash provided by operating activities	13,636	36,485
Cash flows from investing activities:		
Additions to property and equipment	(7,393)	(7,570)
Acquisitions of businesses, net of cash acquired	(222,423)	(880)
Net cash used by investing activities	(229,816)	(8,450)
Cash flows from financing activities:		
Borrowings under credit facility	—	40,000
Repayments of borrowings under credit facility	(1,875)	(40,000)
Repurchases of common stock	(15,792)	—
Proceeds from issuance of common stock	645	7,196
Excess tax benefits from stock-based awards	28	150
Payments of withholding taxes in connection with vesting of stock-based awards	(9,348)	(12,661)
Net cash used by financing activities	(26,342)	(5,315)
Effect of exchange rate changes on cash and cash equivalents	1,371	(3,247)
Net (decrease) increase in cash and cash equivalents	(241,151)	19,473
Cash and cash equivalents, beginning of period	489,543	167,878
Cash and cash equivalents, end of period	$248,392	$187,351

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

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PTC Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

General

The accompanying unaudited condensed consolidated financial statements include the accounts of PTC Inc. (formerly named Parametric Technology Corporation) and its wholly owned subsidiaries and have been prepared by management in accordance with accounting principles generally accepted in the United States of America and in accordance with the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. While we believe that the disclosures presented are adequate in order to make the information not misleading, these unaudited quarterly financial statements should be read in conjunction with our annual consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair statement of our financial position, results of operations and cash flows at the dates and for the periods indicated. Unless otherwise indicated, all references to a year mean our fiscal year, which ends on September 30. The September 30, 2012 consolidated balance sheet included herein is derived from our audited consolidated financial statements.

The results of operations for the three months ended December 29, 2012 are not necessarily indicative of the results expected for the remainder of the fiscal year.

2. Deferred Revenue and Financing Receivables

Deferred Revenue

Deferred revenue primarily relates to software support agreements billed to customers for which the services have not yet been provided. The liability associated with performing these services is included in deferred revenue and, if not yet paid, the related customer receivable is included in other current assets. Billed but uncollected support-related amounts included in other current assets at December 29, 2012 and September 30, 2012 were $84.0 million and $110.7 million, respectively.

Financing Receivables

We periodically provide extended payment terms for software purchases to credit-worthy customers with payment terms up to 24 months. The determination of whether to offer such payment terms is based on the size, nature and credit-worthiness of the customer, and the history of collecting amounts due, without concession, from the customer and customers generally. This determination is based on an internal credit assessment. In making this assessment, we use the Standard & Poor's (S&P) credit rating as our primary credit quality indicator, if available. If a customer, whether commercial or the U.S. Federal government, has a S&P bond rating of BBB- or above, we designate the customer as Tier 1. If a customer does not have a S&P bond rating, or has a S&P bond rating below BBB-, we base our assessment on an internal credit assessment which considers selected balance sheet, operating and liquidity measures, historical payment experience, and current business conditions within the industry or region. We designate these customers as Tier 2 or Tier 3, with Tier 3 being lower credit quality than Tier 2.

As of December 29, 2012 and September 30, 2012 amounts due from customers for contracts with original payment terms greater than twelve months (financing receivables) totaled $43.7 million and $42.5 million, respectively. Accounts receivable in the accompanying consolidated balance sheets included current receivables from such contracts totaling $27.5 million and $29.5 million at December 29, 2012 and September 30, 2012, respectively, and other assets in the accompanying consolidated balance sheets included long-term receivables from such contracts totaling $16.2 million and $13.0 million at December 29, 2012 and September 30, 2012, respectively. As of December 29, 2012 and September 30, 2012, none of these receivables were past due. Our credit risk assessment for financing receivables was as follows:

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	December 29, 2012 (in thousands)	September 30, 2012
S&P bond rating BBB-1 and above-Tier 1	$35,075	$34,017
Internal Credit Assessment-Tier 2	8,634	8,446
Internal Credit Assessment-Tier 3	—	—
Total financing receivables	$43,709	$42,463

We evaluate the need for an allowance for doubtful accounts for estimated losses resulting from the inability of these customers to make required payments. As of December 29, 2012 and September 30, 2012, we concluded that all financing receivables were collectible and no reserve for credit losses was recorded. We did not provide a reserve for credit losses or write off any uncollectible financing receivables in the three months ended December 29, 2012 and fiscal year 2012. We write off uncollectible trade and financing receivables when we have exhausted all collection avenues.

We periodically transfer future payments under certain of these contracts to third-party financial institutions on a non-recourse basis. We record such transfers as sales of the related accounts receivable when we surrender control of such receivables. There were no financing receivables sold in the first quarter of 2013. We sold $6.3 million of financing receivables to third-party financial institutions in the three months ended December 31, 2011.

3. Restructuring Charges

In the first quarter of 2013, as part of our strategy to reduce costs and to realign our business, we implemented a restructuring of our business and recorded restructuring charges of $15.5 million. The restructuring charges included $15.5 million for severance and related costs associated with 168 employees notified of termination during the first quarter of 2013 and $27 thousand of charges related to excess facilities. The first quarter employee terminations triggered a curtailment of a non-U.S. pension plan and interim remeasurement of the pension plan's assets and liabilities. The remeasurement resulted in a decrease in the plan's net unrecognized losses of $0.6 million, which was recorded in accumulated other comprehensive income net of tax. In addition, the first quarter of 2013 restructuring charges include a benefit of $0.1 million related to adjusting facility accruals recorded in historical periods.

The following table summarizes restructuring accrual activity for the three months ended December 29, 2012:

	2013 Restructuring				
	Employee Severance and Related Benefits (in thousands)	Facility Closures and Related Costs	Total	Historical (1)	Total
October 1, 2012	$—	$—	$—	$4,461	$4,461
Charges to operations	15,517	27	15,544	(142)	15,402
Cash disbursements	(7,217)	—	(7,217)	(3,047)	(10,264)
Foreign exchange impact	56	—	56	20	76
Accrual, December 29, 2012	$8,356	$27	$8,383	$1,292	$9,675

(1) The historical balances and activity are primarily for employee severance and related benefits related to the 2012 restructuring charges.

The accrual for facility closures and related costs is included in accrued expenses in the consolidated balance sheet, and the accrual for employee severance and related benefits is included in accrued compensation and benefits in the consolidated balance sheet.

4. Stock-based Compensation

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

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

Our equity incentive plans are described more fully in Note K to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

Restricted stock unit activity for the three months ended December 29, 2012	Shares		Weighted Average Grant Date Fair Value (Per Share)
	(in thousands)		
Balance of outstanding restricted stock units October 1, 2012	5,134		$19.99
Granted	1,230		$21.02
Vested	(1,475	)	$18.74
Forfeited or not earned	(151	)	$20.52
Balance of outstanding restricted stock units December 29, 2012	4,738		$20.63

Restricted stock unit activity for the three months ended December 29, 2012

Grant Period	Restricted Stock Units Performance-based (1)	Time-based (2)
	(Number of Units in thousands)	
First three months of 2013	422	808

(1) Of these performance-based RSUs, 90,859 will be eligible to vest to the extent earned in three substantially equal installments on the later of November 15, 2013 and the date the Compensation Committee determines the extent to which the performance criteria have been achieved, November 15, 2014 and November 15, 2015. The remaining 317,197 will be eligible to vest in three substantially equal installments on (i) the later of November 15, 2013 and the date the Compensation Committee determines the extent to which performance criteria have been achieved, (ii) the later of November 15, 2014 and the date the Compensation Committee determines the extent to which the applicable performance criteria have been achieved, and (iii) the later of November 15, 2015 and the date the Compensation Committee determines the extent to which the applicable performance criteria have been achieved; RSUs not earned for a period may be earned in subsequent periods. The remaining 14,046 will vest on the later of November 15, 2013 and the date the Compensation Committee determines the extent to which the performance criteria have been achieved.

(2) The time-based RSUs were issued to employees, including some of our executive officers. These time-based RSUs will vest in three substantially equal annual installments in November 2013, 2014 and 2015.

On November 5, 2012, the Compensation Committee of the Board of Directors approved the grant of 565,546 RSUs which are subject to the approval of an increase in the number of shares available for issuance under the 2000 Equity Incentive Plan by our stockholders at the March 2013 Annual Meeting of Stockholders. These RSUs will be deemed granted in the second quarter of 2013 if such increase is approved.

Compensation expense recorded for our stock-based awards was classified in our consolidated statements of operations as follows:

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	Three months ended	
	December 29, 2012	December 31, 2011
	(in thousands)	
Cost of license revenue	$5	$5
Cost of service revenue	1,612	1,563
Cost of support revenue	826	950
Sales and marketing	2,458	3,728
Research and development	2,512	2,549
General and administrative	4,480	4,587
Total stock-based compensation expense	$11,893	$13,382

5. Earnings per Share (EPS) and Common Stock

EPS

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

Calculation of Basic and Diluted EPS	Three months ended	
	December 29, 2012	December 31, 2011
	(in thousands, except per share data)	
Net income	$35,811	$22,123
Weighted average shares outstanding—Basic	119,927	117,715
Dilutive effect of employee stock options, restricted shares and restricted stock units	1,878	2,861
Weighted average shares outstanding—Diluted	121,805	120,576
Earnings per share—Basic	$0.30	$0.19
Earnings per share—Diluted	$0.29	$0.18

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

Common Stock Repurchases

Our Articles of Organization authorize us to issue up to 500 million shares of our common stock. Our Board of Directors has authorized us to repurchase up to $100 million worth of shares with cash from operations in the period October 1, 2012 through September 30, 2013. In the first quarter of 2013 we repurchased 0.7 million shares at a cost of $15.8 million. At the end of the first quarter of 2013 we had committed to repurchase 0.2 million shares at a cost of $4.2 million. These shares settled after quarter end and will be recognized as shares repurchased in the second quarter of 2013. We did not repurchase any shares in the first quarter of 2012. All shares of our common stock repurchased are automatically restored to the status of authorized and unissued.

6. Acquisition

On October 2, 2012, we acquired Servigistics, Inc. ("Servigistics"), a developer of a suite of service lifecycle management (SLM) software solutions, for $222.4 million in cash (net of cash acquired of $1.4 million). We acquired Servigistics to expand our products that support service organizations within manufacturing companies, including managing service and spare parts information and the delivery of service for warranty and product support processes. Servigistics had annualized revenues of approximately $80 million and approximately 400 employees. The acquisition was completed pursuant to the terms of a Stock Purchase Agreement dated as of August 7, 2012 by and among PTC, the stockholders of Servigistics (the Sellers) and Servigistics, LLC, as the Sellers' representative, to acquire all of the outstanding shares of capital stock of Servigistics from the Sellers. We borrowed $230 million under our existing credit facility to fund the acquisition (Note 12).

The results of operations of Servigistics have been included in our consolidated financial statements beginning on the acquisition date. Servigistics added $25.3 million to our revenue in the first quarter of 2013 and added $21.6 million in costs and expenses. We incurred acquisition-related costs in the first quarter of 2013 of $4.6 million related to our acquisition of Servigistics and in the first quarter of 2012 of $2.1 million related to our acquisitions of MKS and 4CS. Acquisition-related costs include direct costs of completing an acquisition (i.e., investment banker fees, professional fees, including legal and valuation services) and expenses related to acquisition integration activities (i.e., professional fees, severance, and retention bonuses). These costs have been classified in general and administrative expenses in the accompanying consolidated statements of operations.

The acquisition of Servigistics has been accounted for as a business combination. Assets acquired and liabilities assumed have been recorded at their estimated fair values as of the October 2, 2012 acquisition date. The fair values of intangible assets were based on valuations using an income approach, with estimates and assumptions provided by management of Servigistics and PTC. The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. The excess of the purchase price over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The purchase price allocation is not yet finalized related to income taxes and the amount of resulting goodwill. Any further purchase price adjustments related to adjustment provisions in the acquisition agreement are expected to be finalized in the next several months and are not anticipated to be material.

Based upon a valuation, the total purchase price allocation was as follows:

	(in thousands)	
Goodwill	$141,438	
Identifiable intangible assets	118,300	
Cash	1,355	
Accounts receivable	20,536	
Property and equipment	3,588	
Deferred maintenance revenue	(11,714	)
Deferred tax assets and liabilities, net	(35,566	)
Accrued employee related liabilities	(9,010	)
Net assumed liabilities	(5,149	)
Total purchase price allocation	223,778	
Less: Servigistics cash acquired	(1,355	)
Total purchase price allocation, net of cash acquired	$222,423	

The purchase price allocation resulted in $141.4 million of goodwill, the majority of which will not be deductible for income tax purposes. Intangible assets of $118.3 million includes purchased software of $49.9 million, customer relationships of $66.0 million and trademarks of $2.4 million, which are being amortized over weighted average useful lives of 9 years, 10 years and 7 years, respectively, based upon the pattern in which economic benefits related to such assets are expected to be realized. In accounting for the business combination we recorded net deferred tax liabilities of $35.6 million, primarily related to the tax effect of the acquired intangible assets other than goodwill and the fair value adjustment for deferred revenue that are not deductible for income tax purposes. The resulting amount of goodwill reflects our expectations of the following synergistic benefits: (1) the potential to sell Servigistics products into our customer base and to sell PTC products into Servigistics' customer base; (2) our intention to leverage our larger sales force and our intellectual property to attract new contracts and revenue; and (3) our intention to leverage our established presence in global markets.

The unaudited financial information in the table below summarizes the combined results of operations of PTC and Servigistics, on a pro forma basis, as though the companies had been combined as of the beginning of PTC's fiscal year 2012. The pro forma information for all periods presented includes the effects of business combination accounting resulting from the acquisition as though the acquisition had been consummated as of the beginning of fiscal year 2012, including amortization charges from acquired intangible assets, the fair value adjustment of acquired deferred support revenue being recorded in fiscal year 2102 versus fiscal year 2013, interest expense on borrowings in connection with the acquisition, the exclusion of

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acquisition-related costs and the related tax effects. PTC's first quarter of 2013 results also exclude the $32.6 million tax benefit recorded to decrease our valuation allowance in jurisdictions where we have recorded a valuation allowance as a result of Servigistics' net deferred tax liability position recorded in accounting for the business combination (Note 11). The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that actually would have been achieved if the acquisition had taken place at the beginning of 2012.

Unaudited Pro Forma Financial Information

	Three months ended	
	December 29, 2012	December 31, 2011
	(in millions, except per share amounts)	
Revenue	$321.3	$333.9
Net income	$8.3	$23.7
Earnings per share—Basic	$0.07	$0.20
Earnings per share—Diluted	$0.07	$0.20

7. Goodwill and Intangible Assets

We have two operating segments: (1) Software Products and (2) Services. We assess goodwill for impairment at the reporting unit level. Our reporting units are determined based on the components of our operating segments that constitute a business for which discrete financial information is available and for which operating results are regularly reviewed by segment management. Our reporting units are consistent with our operating segments. As of December 29, 2012 and September 30, 2012, goodwill and acquired intangible assets in the aggregate attributable to our software products reportable segment were $1.0 billion and $768.1 million, respectively, and attributable to our services reportable segment were $43.5 million and $28.1 million, respectively. We test goodwill for impairment in the third quarter of our fiscal year, or on an interim basis if an event occurs or circumstances change that would, more likely than not, reduce the fair value of a reporting segment below its carrying value. Acquired intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

We completed our annual goodwill impairment review as of July 2, 2012 based on a qualitative assessment. Our qualitative assessment included company specific (financial performance and long-range plans), industry, and macroeconomic factors, as well as a sensitivity analysis of key model assumptions. Based on our qualitative assessment, we believe it is more-likely-than-not that the fair values of our reporting units exceed their carrying values and no further impairment testing is required.

Goodwill and acquired intangible assets consisted of the following:

	December 29, 2012			September 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(in thousands)					
Goodwill (not amortized)			$755,075			$610,347
Intangible assets with finite lives (amortized) (1):						
Purchased software	$228,458	$133,134	95,324	$177,166	$127,250	$49,916
Capitalized software	22,877	22,877	—	22,877	22,877	—
Customer lists and relationships	293,873	100,453	193,420	227,097	93,215	133,882
Trademarks and trade names	13,437	9,286	4,151	11,013	8,967	2,046
Other	3,484	3,454	30	3,437	3,396	41
	$562,129	$269,204	$292,925	$441,590	$255,705	$185,885
			$1,048,000			$796,232

Total goodwill and acquired intangible assets

(1) The weighted average useful lives of purchased software, customer lists and relationships, trademarks and trade names and other intangible assets with a remaining net book value are 8 years, 10 years, 7 years, and 3 years, respectively.

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Goodwill

The changes in the carrying amounts of goodwill for the three months ended December 29, 2012 are due to our acquisition of Servigistics described in Note 6 and to foreign currency translation adjustments related to those asset balances that are recorded in non-U.S. currencies.

Changes in goodwill for the three months ended December 29, 2012, presented by reportable segment, are as follows:

	Software Products Segment (in thousands)	Services Segment	Total
Balance, September 30, 2012	$585,469	$24,878	$610,347
Acquisition	128,638	12,800	141,438
Foreign currency translation adjustments	3,240	50	3,290
Balance as of December 29, 2012	$717,347		