KRONOS INC
Form 10-K
December 09, 2005

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

[X] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended **September 30, 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 0-20109

Kronos Incorporated

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2640942**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

297 Billerica Road, Chelmsford, MA 01824
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (978) 250-9800

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value per share
Series A Junior Preferred Participating Stock, $1.00 par value per share

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 X No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Yes X No___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No X

State the aggregate market value of the voting common stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter.

Date	**Non-Affiliate Voting Shares Outstanding**	**Aggregate Market Value**
April 2, 2005	21,440,424	$1,094,962,454

Shares of voting common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The registrant has no shares of non-voting common stock authorized or outstanding.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Date	**Class**	**Outstanding Shares**
December 2, 2005	Common Stock, $0.01 par value per share	31,858,841

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the registrant s definitive Proxy Statement for the 2006 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year end, are incorporated by reference into Items 10-14 of Part III hereof. With the exceptions of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10-K.

PART I

Item 1. Business

Kronos Incorporated was organized in 1977 as a Massachusetts corporation. As part of our workforce management solution, we develop, manufacture, and market human resources, payroll, scheduling, absence management, labor activity tracking, and time and labor systems. These systems include our internally developed and acquired software solutions as well as our hardware solutions (primarily data collection terminals) that we build. These solutions enable organizations to automate employee-centric processes (e.g. payroll and time and attendance), engage the workforce in a more positive, dynamic, and productive fashion (e.g. self-service), and optimize the workforce (e.g. scheduling) in order to achieve maximum business performance. The results include reduced costs and increased productivity, higher employee satisfaction, better alignment of employee performance with organizational objectives, and the placement of real-time information in the hands of decision makers.

Our solutions are designed for a wide range of businesses and organizations, from single-site companies to large, multi-site enterprises. These solutions can be purchased or financed from us. In addition, we maintain an extensive services and technical support organization that implement and maintain systems and provides professional and educational services. These services can be delivered on-site or via the Internet.

We also collaborate with many industry-leading vendors that market products and services that are synergistic with our solutions. These include major enterprise resource planning system, or ERP, providers, consulting firms, niche workforce management application vendors, and technology vendors. To date, substantially all of our revenues and profits have been derived from our time and labor applications and related products and services. We introduced our human resources and payroll products during fiscal 2002. We introduced our newest line of scheduling products in fiscal 2004. We added an absence management product in fiscal 2005, along with customized workforce management solutions for the federal government and airline industry through our acquisitions of 3i Systems and AD OPT Technologies, Inc., or AD OPT.

Kronos Products

The Kronos Workforce Management Solutions

Our workforce management solutions help enable organizations to reduce costs and increase productivity, improve employee satisfaction, align employee performance with organizational objectives, and put real-time information in the hands of decision makers.

Our workforce management solutions consist of the following components: human resources, payroll, scheduling, absence management, labor activity tracking, time and labor, data collection, self-service, and analytics. These components can be deployed together or independently to meet the unique needs of various organizations.

The Workforce Central® Suite

Using web-based technology, the Workforce Central suite is a closely integrated system of human resources, payroll, scheduling and time and labor applications. It can be deployed individually or as a comprehensive solution for workforce management. The Workforce Central suite incorporates powerful applications for analytics and employee self-service, and employs a broad range of our own sophisticated data collection devices. Each component of the Workforce Central suite provides high functionality, streamlined workflow technology, and an intuitive user interface.

The Workforce Central solutions include:

Human resources

Workforce HR manages and automates human resources processes, from recruiting to benefits administration, so that organizations have more time to focus on strategic initiatives. Because it empowers employees to manage their own personal information, Workforce HR helps reduce operational expenses while fostering employee satisfaction compared to a manual system. It allows control over critical processes, including benefits administration, performance management, and compensation planning, and enables real-time sharing of employee information, all of which contributes to better decision-making and improved organizational performance.

Payroll

Workforce Payroll manages the complex information required to administer and complete payment of wages, bonuses, and other forms of compensation. With streamlined payroll processing in house, organizations enjoy more flexibility and control, with quick and easy access to critical payroll data.

Scheduling

Workforce Scheduler is a highly capable, all-in-one solution to an organization's scheduling challenges. It allows managers to plan staff coverage by shift, by employee, or by job description and to react with speed and effectiveness when unforeseen circumstances put productivity at risk. Workforce Scheduler also features a dedicated forecasting engine that enables retailers and other service-oriented businesses to match employee labor to business volume efficiently while adhering to pre-determined labor standards.

Workforce Scheduler with Optimization is a solution designed for retailers and other service-oriented businesses. It includes all the advantages of Workforce Scheduler and, in addition, allows for the creation of optimized schedules for those industries. It features comprehensive business and labor forecasting engines, which can accurately forecast business, calculate labor needs, and create a schedule that matches labor to volume more efficiently.

Altitude® is a suite of customized crew planning, management, and optimization solutions designed exclusively for the airline industry. Altitude can handle the complex crew deployment and management functions of the airline industry, from mainline carriers to charters and low-cost carriers. It helps airlines lower costs and reduce manpower planning time.

Total Care is a staff scheduling solution designed specifically for the Canadian and Australian healthcare markets. This suite of applications allows healthcare facilities to manage their largest expenditure, the workforce, more effectively. It helps optimize staffing, control budgets, improve employee satisfaction, and make better decisions when it comes to patient care.

Time and labor

Workforce Timekeeper automates and streamlines the management, collection, and distribution of employee hours, eliminating the need for manual timesheets. Workforce Timekeeper has a robust, flexible pay rules engine that applies complex work and pay rules accurately and consistently throughout an organization.

Workforce Accruals® provides an integrated module for controlling leave liability and complying with corporate policies or contracts. It is designed to ensure accuracy across an organization with minimal supervision, enabling employees and managers to manage leave time easily and efficiently. Workforce Accruals has the flexibility to facilitate an organization's most complex leave and benefit policies.

Workforce Record Manager makes maintaining the Workforce Timekeeper database faster, easier, and more effective. It enables IT managers to easily move data from one Workforce Timekeeper database to another, and provides the functionality needed to support archiving processes.

Workforce Attendance helps organizations to automate and streamline the administration and enforcement of complex attendance policies and apply rewards or disciplinary action fairly and consistently. It helps managers to proactively manage absenteeism and reduce the costs associated with it. A variety of available reports help managers to spot absence trends and patterns early and take corrective action before they become an issue.

Workforce Activities enables real-time tracking of activity data for individual employees and teams. It reconciles direct and indirect labor to time paid, and enables an organization to compare productivity against standards. Workforce Activities also eliminates the process of manually entering job-costing data into ERP systems. Going beyond weekly or daily reporting, Workforce Activities provides up-to-the-minute information so that managers can adjust to the shifting demands of a production environment.

Workforce Leave helps to track and manage all types of leave, all in one place, automatically. It streamlines the entire leave management process, from eligibility to entitlement to on-leave compensation, and provides visibility into trends and patterns that can point to and help reduce the abuse of leave benefits. It helps maintain compliance with the Family and Medical Leave Act of 1993 and other federal, state, and union mandates, and provides accurate administration and tracking of paid and unpaid leave policies, even when rules overlap.

webTA is a web-based time and labor reporting solution that supports the federal government's unique time and attendance requirements. It simplifies timekeeping with functionality that allows employees to enter and validate their own time using digital signatures. It also allows managers to perform corrections and update protected fields. Electronic time and labor reports may be viewed, but not changed, by employees, managers, and supervisors, without the need to generate paper reports.

Data collection

Kronos 4500 badge terminals are high speed, network-centric data collection devices that capture and manage labor data easily and effectively. The Kronos 4500 terminals provide access to key self-service functionality, and their centralized configuration makes them easy to deploy and maintain. The Kronos 4500 terminals are designed with "swipe and go" badge functionality and keypads for fast interaction.

Kronos 4500 Touch ID terminal, like the Kronos 4500 badge terminal, is a high speed, network-centric data collection device that captures and manages labor data easily and effectively. The Kronos 4500 Touch ID terminal incorporates leading finger scan verification technology, ideal for eliminating "buddy punching."

Workforce TeleTime® leverages the convenience and accessibility of the telephone to collect time and labor information from employees on the move. Workforce TeleTime provides a solution for these employees and managers, whether they telecommute, work in multiple facilities, travel frequently, or otherwise don't have access to a data collection terminal or the web. These employees can use this interactive touchtone application for a range of time and labor transactions, all completed through the telephone.

Self-service

Workforce Employee is a browser-based interface that employees can use to enter time and labor data and access human resources and payroll information and processes. It allows them to view hours worked, approve timecards, or even sign up for available shifts. Workforce Employee also provides convenient web access to a breadth of human resources information, including available training, job openings, and benefits enrollment.

Workforce Manager is designed to be a significant time saver in that it alerts managers to the issues that require immediate attention, such as an employee approaching an overtime threshold. Workforce Manager provides managers with broad visibility into their staff, including skills, experience, and completed training, all of which is essential to helping them optimize the workforce.

Analytics

Visionware® is a labor analytics system for organizations in industries such as healthcare, where controlling labor costs is a significant challenge. Visionware enables organizations to manage productivity, reduce labor costs, and most importantly, align labor decisions with strategic objectives.

The Kronos iSeries Central suite

The Kronos iSeries Central suite is comprised of time and labor applications designed specifically for the IBM eServer iSeries. The Kronos iSeries Central suite automates time and labor management processes on the frontline and provides access to real-time data for better decision-making. It employs a broad range of our own data collection devices.

Kronos iSeries Central solutions include:

Kronos iSeries Timekeeper automates and streamlines the management, collection, and distribution of employee hours, eliminating the need for manual timesheets.

Kronos iSeries Accruals is an integrated module designed to manage leave liability and assist in complying with corporate policies or contracts.

Kronos iSeries Attendance allows an organization to automate a no-fault attendance program by capturing lost time exceptions and absences.

Kronos iSeries Scheduler is an application that automates time-consuming scheduling processes and helps managers make better decisions about workforce deployment. It provides essential scheduling criteria, including staffing requirements, actual hours worked, employee skills and certifications, and employee availability.

Kronos iSeries Activities is an application that helps organizations understand how labor is being used. It provides visibility into how the workforce performs against productivity goals and benchmarks, and provides activity-level data in real time for better decision making.

Kronos iSeries Manager is a web-based application that allows an organization to effectively manage employees in a "one-click" environment. This HTML-based application allows an organization to edit time records, run and print reports, and effectively manage its labor resource quickly and easily from anywhere in the world.

Kronos iSeries Employee is an intuitive, web-based application that acts as an employee portal to an organization's information and processes. It allows employees to enter time and labor data and track jobs or projects after they have been completed. Employees can view hours worked, submit timecards, or review other information such as schedules and accrual balances.

Kronos iSeries Decisions is designed to provide sophisticated reporting capabilities that extend the value of employee data to decision makers throughout an organization.

Kronos iSeries Access and Gatekeeper® terminals are an integrated solution designed to manage employee admittance into controlled areas in any facility.

Complementary products

In addition to our core products, we offer a variety of solutions designed to help maximize workforce management capabilities.

Data collection devices provide powerful and convenient methods for capturing employees' time and labor information, and offer a wide range of interaction methods including: badge terminals, biometrics, telephony, and handheld devices.

Workforce Connect is an integration solution that reduces delays and modification costs. Data can be imported and exported quickly and easily from a variety of sources. It supports over 250 payroll systems and other essential integration needs.

Gatekeeper® provides a method to control and track access to areas of an organization that require monitoring.

Services and Support

We maintain an extensive professional service and technical support organization that provides a suite of maintenance, professional and educational services. These services are designed to support our customers throughout the product life cycle. Maintenance service options are delivered through our centralized global support operation or through local service personnel. We also provide a wide range of customer self-service options through the Internet. Our professional services include both onsite and remote implementation support, technical and business consulting, and system integration and optimization. Our educational services offer a full range of curriculae that are delivered through local training centers or via Internet-based training courses.

Marketing and Sales

We market and sell our products to the mid-market (organizations with 250 to 2,500 employees), the enterprise market (organizations with over 2,500 employees) and the global market (organizations with employees and facilities in multiple countries). We market and sell in the United States and other countries, including Canada, Mexico, the United Kingdom, Australia, and New Zealand through our direct sales and support organization, and through independent resellers. In addition, we have a joint marketing agreement with Automatic Data Processing, Inc., or ADP, under which ADP markets rebranded versions of our Workforce Central suite and data collection terminals. Our direct sales force is organized to focus on the distinct market segments (mid-market, enterprise, global) and in some cases on distinct vertical industries or product lines. Our direct sales force is organized by geographic region and our marketing department is organized into functional groups that align with our sales organization.

<u>Marketing Organization:</u>

The responsibilities of our marketing organization include:

- developing solution strategy, positioning and marketing;
- developing vertical market strategy and programs;
- interacting with press and industry analysts;
- managing our customer database and customer relationship programs;
- developing lead-generation programs, events, and advertising;
- developing marketing communications; and
- managing strategic alliances.

Direct Sales Organization

We have 46 direct sales and support offices located in the United States. In addition, we have seven sales and support offices located in Canada, three in the United Kingdom, one in Mexico, six in Australia, and one in New Zealand. Each direct sales office covers a defined geographic region, and has sales and support functions. We have sales executives assigned to mid-market, enterprise and national accounts. There are also teams dedicated to the federal government, retail, healthcare, and airline markets. To capitalize on the specialization of our Visionware product, we also have a dedicated sales and support operation focusing on this product.

For the fiscal years ended September 30, 2005, 2004, and 2003, our direct sales and support offices in the U.S. generated net revenues of $407.3 million, $358.8 million, and $320.6 million, respectively. For the fiscal years ended September 30, 2005, 2004, and 2003, our international subsidiaries generated net revenues of $65.2 million, $46.7 million, and $37.5 million, respectively. Total assets at our international subsidiaries for these periods were $158.7 million, $37.0 million, and $29.8 million, respectively. The increase in total international assets in fiscal 2005 is primarily attributable to our acquisition of AD OPT in November 2004.

Resellers

We also market and sell our products through independent resellers within designated geographic territories generally not covered by our direct sales offices. These resellers provide sales, support and installation services for our products. There are presently 4 resellers in the United States actively selling and supporting our products. Sales to independent U.S. resellers for the years ended September 30, 2005, 2004, and 2003 were $6.1 million, $9.7 million, and $10.8 million, respectively. The decrease in revenues in fiscal 2005 and 2004 was principally due to the acquisitions by us of various resellers during fiscal 2005, 2004 and 2003. We also have resellers in Argentina, Bahamas, Bahrain, Barbados, Brazil, Chile, Columbia, Guam, Guyana, India, Jamaica, Lebanon, Netherlands, Nigeria, Norway, Panama, The Philippines, Puerto Rico, Romania, Singapore, South Africa, Trinidad, and United Arab Emirates. Sales to independent international resellers were not material in any of the fiscal years 2003 through 2005. We support our resellers with training, technical assistance, and marketing assistance.

Original Equipment Manufacturers

We have a joint marketing agreement with ADP under which ADP markets rebranded versions of our Timekeeper Central system, Workforce Central suite and data collection terminals manufactured by us.

During fiscal 2003, we signed an agreement with ADP extending the business relationship for an additional term of five years, and during fiscal 2004, signed an amendment to that agreement that provides for minimum purchasing requirements and further extends the agreement for an additional six months. A reduction in the sales efforts of our major resellers or ADP, or termination or changes in their relationships with us, could have a material adverse effect on our results from operations.

Customers

End-users of our products include companies and organizations of virtually all sizes from many varied sectors such as manufacturing, healthcare, services, retail, transportation/distribution, and government and education sectors.

Product Development

Our product development efforts are focused on enhancing the capabilities and increasing the performance of our existing products as well as developing new products and standard interfaces to third-party products on a timely basis to meet the increasingly sophisticated needs of our customers. During fiscal 2005, 2004, and 2003, our engineering, research and development expenses were $50.7 million, $44.1 million, and $38.5 million, respectively. We intend to continue to commit substantial resources to enhance and extend our product lines and develop interfaces to third-party products. Although we continually seek to further enhance our product offerings and to develop new products and interfaces, including products for the workforce management market, there can be no assurance that these efforts will succeed, or that, if successful, such product enhancements or new products will achieve widespread market acceptance, or that our competitors will not develop and market products that are superior to our products or achieve greater market acceptance. We also depend upon the reliability and viability of a variety of software products owned by third parties to develop our products. If these products are inadequate or not properly supported, our ability to release competitive products in a timely manner could be adversely impacted.

Competition

The workforce management market, which includes human resources, payroll, scheduling, and time and labor, is highly competitive. Increased competition could adversely affect our operating results through price reductions or loss of market share. As we expand our workforce management offering with the recent introduction of our advanced scheduling and absence management products, we will continue to meet strong competition. Many of our competitors may be able to adapt more quickly to new or emerging technologies or to devote greater resources to the promotion and sale of their human resources, payroll, and scheduling products. Some of our human resources and payroll competitors have significantly greater financial, technical and sales and marketing resources than we have, as well as more experience in delivering human resources and payroll solutions. We believe that the principal methods of competition include product features and functionality, price, customer service, professional services, resources, manner of delivery, and company stability and reputation. We believe we compete favorably in a number of these areas, including with respect to our product features, the fact that we are a single-source provider of workforce management solutions, our proven service approach, and company stability. Although we believe we have core competencies that position us strongly in the marketplace, our continued ability to compete favorably with our competitors will require continued investment by us in research and development, services, and marketing and sales programs. There can be no assurance that we will be able to compete successfully in the human resources, payroll, and scheduling marketplace, and our failure to do so could have a material adverse impact upon our business, prospects, financial condition, and operating results**.**

Proprietary Rights

We have developed, and through our acquisitions of businesses and technology, acquired, proprietary technology and intellectual property rights. Our success is dependent upon our ability to further develop and protect our proprietary technology and intellectual property rights. We seek to protect products, software, documentation and other written materials primarily through a combination of trade secret, patent, trademark and copyright laws, confidentiality procedures and contractual provisions. While we have attempted to safeguard and maintain our proprietary rights, we cannot be certain that we have been or will be successful in doing so.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that is regarded as proprietary. Policing unauthorized use of our products is difficult. 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, particularly in foreign countries where the laws may not protect proprietary rights as fully as in the United States. We can offer no assurance that we can adequately protect our proprietary rights or that our competitors will not reverse engineer or independently develop similar technology.

We have registered trademarks for Kronos, Kronos TouchID, My Genies, Timekeeper, Timekeeper Central, Jobkeeper Central, Datakeeper, Datakeeper Central, Gatekeeper, Gatekeeper Central, Imagekeeper, TeleTime, CardSaver, ShopTrac, ShopTrac Pro, Keep.Trac, Visionware, Workforce Central, Workforce Genie, Workforce Accruals, Workforce TeleTime, Workforce Express, Workforce Decisions, eForce, PeoplePlanner, PeoplePlanner design, StarComm, StarPort, StarSaver, StarTimer, Altitude, and our logo in the United States and other countries. In addition, Kronos eCentral, Timekeeper Web, Workforce Connect, FasTrack, Workforce Activities, Workforce Scheduler, Workforce Smart Scheduler, Workforce Manager, Workforce MobileTime, Workforce Timekeeper, Hyperfind, Kronos 4500, Kronos 4500 Touch ID, Labor Plus, Schedule Assistant, Winstar Elite, WIP Plus, Workforce HR, Workforce View, Workforce Employee, Smart Scheduler, StartLabor, StartQuality, StartWIP, Starter Series, Timekeeper Decisions, VisionPlus, Workforce Payroll, Workforce Record Manager, Workforce Recruiter, AltitudeDream, Altitude MPPXpress, Altitude PBS, Altitude Pairing, KronosWorks, MPPXpress, Momentum, Momentum Essentials, Momentum Online, Workforce Analytics, Workforce Attendance, Workforce Leave, SmartView, and Workforce Tax Filing are our trademarks. Certain trademarks have been obtained or have been applied for in various foreign countries.

7

IBM is a registered trademark of, and iSeries and eServer are trademarks of, International Business Machines Corporation. ADP is a registered trademark of Automatic Data Processing, Inc. Microsoft is a registered trademark of Microsoft Corporation. PeopleSoft is a registered trademark of PeopleSoft, Inc. J.D. Edwards is a registered trademark of J.D. Edwards and Company. Lawson is a registered trademark of Lawson Associates, Inc. SAP is a trademark of SAP AG.

Manufacturing and Sources of Supply

The duplication of our software and the printing of documentation are outsourced to suppliers. We currently have two suppliers who have been certified to our manufacturing specifications to perform the software duplication process. The majority of the assembly of the printed circuit boards used in our data collection terminals is completed at our facility in Chelmsford, Massachusetts. A portion of this assembly is completed by approved suppliers. All final assembly and testing of our data collection terminals is completed at our Chelmsford facility. Although most of the parts and components included within our products are available from multiple suppliers, certain parts and components are purchased from single suppliers. We have chosen to source these items from single suppliers because we believe that the supplier chosen is able to consistently provide us with the highest quality product at a competitive price on a timely basis. While we have to date been able to obtain adequate supplies of these parts and components, our inability to transition to alternate sources on a timely basis if and as required in the future could result in delays or reductions in product shipments, which could have a material adverse effect on our operating results.

Acquisitions

We completed several acquisitions during fiscal 2005. Please refer to Note I of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further information regarding these acquisitions.

In November 2004, we completed the acquisition of AD OPT. The gross purchase price paid was $57.6 million in cash, net of cash and short-term investments acquired of approximately $16.0 million, resulting in a net purchase price of $41.6 million. AD OPT is a provider of advanced workforce planning and scheduling solutions.

Employees

As of September 30, 2005, we had approximately 2,900 employees. None of our employees are represented by a union or other collective bargaining agreement, and we consider our relations with our employees to be good. We have historically encountered intense competition for experienced technical personnel for product development, technical support and sales and expect such competition to continue in the future. Any inability to attract and retain a sufficient number of qualified technical personnel could adversely affect our ability to produce, support and sell products in a timely manner.

Available Information

We maintain an Internet website at www.kronos.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and each amendment to these reports. Each such report is posted on our website as soon as reasonably practicable after such report is filed with the SEC via the EDGAR system.

The information on our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered a part of this Annual Report. Our website address is included in this Annual Report as an inactive textual reference only.

Item 2. Properties

We own our 129,000 square foot corporate headquarters facility and lease approximately 292,000 square feet in four additional facilities, all located in Chelmsford, Massachusetts. Our manufacturing operations, global support center and various engineering, sales, service, and administrative operations are located in these facilities. Expiration dates of leases on these offices range from 2005 to 2013. Additionally, we lease 64 sales and support offices located throughout North America, Europe, Australia and New Zealand. Expiration dates of leases on these offices range from 2005 to 2018. Our aggregate rental expense for all of our facilities in fiscal 2005 was approximately $13.9 million. We consider our facilities to be adequate for our current requirements and believe that additional space will be available as needed in the future.

Item 3. Legal Proceedings

From time to time, we are involved in legal proceedings arising in the normal course of business. We do not consider any of the legal proceedings in which we are currently involved to be material.

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

None.

Item 4A. Executive Officers of the Registrant

Executive Officers of the Registrant

Name	Age	Position
Mark S. Ain	62	Executive Chairman of the Board
Aron J. Ain	48	Chief Executive Officer
Paul A. Lacy	58	President, Chief Financial Officer
Lloyd B. Bussell	60	Vice President, Manufacturing
James J. Kizielewicz	46	Senior Vice President, Corporate Strategy
Peter C. George	46	Senior Vice President, Engineering and Chief Technology Officer
Joseph R. DeMartino	56	Senior Vice President, Worldwide Service
Laura L. Vaughan	57	Vice President, Worldwide Sales

Mark S. Ain, one of our founders, served as Chief Executive Officer and Chairman since our organization in 1977 until October 31, 2005, at which time he retired in those capacities and became our Executive Chairman of the Board. He also served as President from 1977 through

September 1996. Mr. Ain sits on the Board of Directors for the following public companies: KVH Industries, Inc. and LTX Corporation. Mr. Ain is the brother of Aron J. Ain, Chief Executive Officer.

Aron J. Ain has served as Chief Executive Officer since October 31, 2005. Previously, Mr. Ain served as Executive Vice President, Chief Operating Officer from April 2002 until October 2005, as Vice President, Worldwide Sales and Service from November 1998 until April 2002, as Vice President, Marketing and Worldwide Field Operations from September 1996 until November 1998, and as Vice President, Sales and Service from 1988 through September 1996. Mr. Ain sits on the Board of Directors for the following public company: Unica Corporation. Mr. Ain is the brother of Mark S. Ain, Chief Executive Officer and Chairman.

Paul A. Lacy has served as President, Chief Financial Officer since October 31, 2005. Previously, Mr. Lacy served as Executive Vice President, Chief Financial and Administrative Officer from April 2002 until October 2005, and as Vice President, Finance and Administration, Treasurer and Clerk from 1988 until April 2002.

Lloyd B. Bussell has served as Vice President, Manufacturing since 1987.

James J. Kizielewicz has served as Senior Vice President Corporate Strategy since October 2005. Previously, Mr. Kizielewicz served as Vice President Corporate Strategy from March 2004 until October 2005, as Vice President, Marketing and Corporate Strategy from January 1997 until March 2004. Mr. Kizielewicz served in a variety of capacities for us from 1981 until his appointment as Vice President, Marketing and Corporate Strategy in January 1997.

Peter C. George has served as Senior Vice President, Engineering, Chief Technology Officer since October 2005. Previously, Mr. George served as Vice President, Engineering, Chief Technology Officer from February 2002 until October 2005, and as Vice President, Software Development since 1997, and as such was responsible for the management of the development of our software products.

Joseph R. DeMartino has served as Senior Vice President, Worldwide Service since October 2005. Previously, Mr. DeMartino served as Vice President, Worldwide Service from June 2002 until October 2005, and as Vice President, North America Field Service from August 1998 until June 2002, and as such was responsible for the management of the customer service delivery functions, including consulting, education and technical support, for our North America operations.

Laura L. Vaughan has served as Vice President, Worldwide Sales since October 2003. In this role, Ms. Vaughan is responsible for worldwide sales and international operations. Ms. Vaughan was appointed to her current position as an executive officer in June 2002. Previously, Ms. Vaughan served in a variety of capacities for us since 1992.

Our officers hold office until the first meeting of directors following the next annual meeting of stockholders, at which time officers are appointed for the following fiscal year.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Market Information

Our common stock is traded on the NASDAQ National Market under the symbol KRON. The following table sets forth the high and low sales prices for fiscal 2005 and 2004. These over-the-counter market quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2005	
Fiscal	High	Low
First quarter	$52.140	$43.990
Second quarter	56.120	45.740
Third quarter	52.700	37.840
Fourth quarter	49.490	40.450

	2004	
Fiscal	High	Low

First quarter	$41.940	$34.747
Second quarter	43.650	31.250
Third quarter	42.540	31.810
Fourth quarter	46.290	33.250

Holders

There were approximately 300 stockholders of record of our common stock as of December 2, 2005.

Dividends

We have not paid cash dividends on our common stock, and our present policy is to retain earnings for use in our business.

Issuer Purchases of Equity Securities

In the following table, we provide information about our purchases during the quarter ended September 30, 2005 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act.

	(a)	(b)	(c)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Programs

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	
07/03/05-08/03/05	108,500	$43.25	108,500	473,476
08/04/05-09/04/05	92,500	44.00	92,500	380,976
09/05/05-09/30/05	77,500	42.94	77,500	303,476
Total:	278,500	$43.41	278,500	303,476

(1) We repurchased an aggregate of 278,500 shares of our common stock pursuant to the repurchase program that was publicly announced on May 15, 2005, which we refer to as the repurchase program.

(2) Our board of directors approved the repurchase by us of up to an aggregate of 750,000 shares of our common stock pursuant to the repurchase program. Unless terminated earlier by resolution of our board of directors, the repurchase program will expire when we have repurchased all shares authorized for repurchase thereunder.

12

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with the audited consolidated financial statements and notes thereto and management s discussion and analysis of financial condition and results of operations included elsewhere in this Annual Report on Form 10-K. The balance sheet data as of September 30, 2005 and 2004 and the statements of operations data for the years ended September 30, 2005, 2004, and 2003 have been derived from the audited consolidated financial statements for such years, included elsewhere in this Annual Report on Form 10-K. The balance sheet data as of September 30, 2003, 2002, and 2001 and the statements of operations data for the years ended September 30, 2002 and 2001 have been derived from the audited consolidated financial statements for such years, not included in this Annual Report on Form 10-K.

Financial Highlights	In thousands, except per share data				
	Year Ended September 30,				
	2005	2004	2003	2002	2001
Operating Data:					
Net revenues	$518,658	$450,694	$397,355	$342,377	$295,290
Net income (1)	$53,904	$46,250	$34,666	$28,827	$16,504
Net income per common share:					
Basic	$1.69	$1.49	$1.16	$0.98	$0.59
Diluted	$1.65	$1.44	$1.12	$0.94	$0.57
Balance Sheet Data:					
Total assets	$579,426	$505,830	$411,818	$331,449	$288,300

(1) In accordance with Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, which were issued in June 2001, we changed our method of accounting for acquisitions consummated subsequent to June 30, 2001 and effective October 1, 2001, we changed our method of accounting for goodwill.

13

Selected Quarterly Financial Data (unaudited)	In thousands, except per share data			
	Three Months Ended (1)			
	Sept. 30, 2005	July 2, 2005	April 2, 2005	Jan. 1, 2005
Net revenues	$149,770	$129,991	$120,621	$118,276
Gross profit	$94,751	$79,790	$71,868	$72,211
Net income	$19,394	$12,629	$11,223	$10,658
Net income per share:				
Basic	$0.61	$0.39	$0.35	$0.34
Diluted	$0.60	$0.39	$0.34	$0.33
	Three Months Ended (1)			
	Sept. 30, 2004	July 3, 2004	April 3, 2004	Jan. 3, 2004

Net revenues	$128,342	$114,700	$107,979	$99,673
Gross profit	$82,793	$69,741	$64,164	$57,928
Net income	$18,063	$11,155	$9,620	$7,412
Net income per share:				
Basic	$0.58	$0.36	$0.31	$0.24
Diluted	$0.56	$0.35	$0.30	$0.23

(1) The Company follows a system of fiscal months as opposed to calendar months. Under this system, the first eleven months of each fiscal year end on a Saturday. The last month of the fiscal year always ends on September 30.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This discussion includes certain forward-looking statements about our business and our expectations, including statements relating to total revenues, international revenues, revenue growth rates, income tax rates, earnings per share, cash flow and capital expenditures. Any such statements are subject to risk that could cause the actual results to vary materially from expectations. For a further discussion of the various risks that may affect our business and expectations, see Certain Factors That May Affect Future Operating Results at the end of Management s Discussion and Analysis of Financial Condition and Results of Operations. The risks and uncertainties discussed herein do not reflect the potential future impact of any mergers, acquisitions or dispositions. In addition, any forward-looking statements represent our estimates only as of the day this Annual Report was filed with the Securities and Exchange Commission and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Overview

We provide a suite of solutions that automate employee-centric processes and provide tools to optimize the workforce. Our solutions, which include human resources, payroll, scheduling and time and labor applications, are designed for a wide range of businesses and organizations from single-site to large multi-site enterprises. We derive revenues from the licensing of our software solutions, sales of our hardware solutions and by providing professional services as well as ongoing customer support and maintenance.

Our revenues in fiscal 2005 increased $68.0 million, or 15%, over fiscal 2004. The growth in our revenues was attributable to revenues from our core business as well as growth in revenues from acquired businesses. Maintenance revenues increased $25.7 million, or 18%, professional services revenues increased $17.4 million, or 16%, and product revenues increased $24.8 million, or 13%.

Net income for fiscal 2005 increased 17% to $53.9 million from $46.3 million, with earnings per share increasing to $1.65 from $1.44 per diluted share. Net income growth for fiscal 2005 was primarily the result of continued growth in our revenues, partially offset by an increase in operating expenses associated with an increase in compensation and related overhead and support costs required for the support of our growing operations (including the hiring of additional personnel), as well as expenses related to the implementation of our new information technology system and audit and consulting fees relating to compliance with the Sarbanes-Oxley Act of 2002.

Regarding expectations for fiscal 2006, we presently anticipate that revenue growth, excluding revenues from customers obtained in the acquisition of businesses in fiscal 2006, if any, to range between 12% - 15% for both the entire fiscal 2006 and the first quarter of fiscal 2006. Excluding the impact of Financial Accounting Standards Board, or FASB, Statement No. 123 (revised 2004), Share-Based Payment, or Statement 123(R), we expect earnings per diluted share in the range of $1.82 - $1.88 for the entire fiscal 2006 and $0.36 - $0.38 for the first quarter. We expect that the impact of Statement 123(R) (including outstanding, unvested awards and new awards) will be approximately $0.32 $0.36 for the entire fiscal 2006 and $0.08 $ 0.09 for the first quarter.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. We base estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of consolidated financial statements. This listing is not a comprehensive list of all of our accounting policies. Please refer to Note A in the Notes to Consolidated Financial Statements included as part of this Annual Report on Form 10-K for further information.

Revenue Recognition We license software and sell data collection hardware and related ancillary products to end-user customers through our direct sales force as well as indirect channel customers, which include ADP and other independent resellers. Substantially all of our software license revenue is earned from perpetual licenses of off-the-shelf software requiring no modification or customization. The software license, data collection hardware and related ancillary product revenues from our end-user customers and indirect channel customers are generally recognized using the residual method when:

- Persuasive evidence of an arrangement exists, which is typically when a non-cancelable sales and software license agreement has been signed;
- Delivery, which is typically FOB shipping point, is complete for the software (either physically or electronically), data collection hardware and related ancillary products;

- The customer s fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties;
- Collectibility is probable; and
- Vendor-specific objective evidence of fair value exists for all undelivered elements, typically maintenance and professional services.

15

Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue, assuming all other conditions for revenue recognition have been satisfied. Substantially all of our product revenue is recognized in this manner. If we cannot determine the fair value of any undelivered element included in an arrangement, we will defer revenue until all elements are delivered, services are performed or until fair value can be objectively determined.

As part of an arrangement, end-user customers typically purchase maintenance contracts as well as professional services from us. Maintenance services include telephone and web-based support as well as rights to unspecified upgrades and enhancements, when and if we make them generally available. Professional services are typically deemed to be non-essential to the functionality of the software and typically are for implementation planning, loading of software, installation of the data collection hardware, training, building simple interfaces, running test data and assisting in the development and documentation of pay rules and best practices consulting.

Revenues from maintenance services are recognized ratably over the term of the maintenance contract period based on vendor-specific objective evidence of fair value. Vendor-specific objective evidence of fair value is based upon the amount charged when purchased separately, which is typically the contract s renewal rate. Maintenance services are typically stated separately in an arrangement. We have classified the allocated fair value of revenues pertaining to the contractual maintenance obligations that exist for the 12-month period subsequent to the balance sheet date as a current liability, and the contractual obligations with a term beyond 12 months as a non-current liability. Revenues from time and material customer support services are recognized as the services are delivered.

Revenues from professional services are generally recognized based on vendor-specific objective evidence of fair value when:

- A non-cancelable agreement for the services has been signed or a customer s purchase order has been received;
- The professional services have been delivered;
- The customer s fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties; and
- Collectibility is probable.

Vendor-specific objective evidence of fair value is based upon the price charged when these services are sold separately and are typically an hourly rate for professional services and a per-class rate for training. Based upon our experience in completing product implementations, we have determined that these services are typically delivered within a 12-month period subsequent to the contract signing, and we therefore have classified deferred professional services as a current liability.

Our arrangements with end-user customers and indirect channel customers do not include any rights of return or price protection, nor do arrangements with indirect channel customers include any acceptance provisions. Our arrangements with end-user customers generally include our standard acceptance provision. Our standard acceptance provision provides the end-user customer with a right to a refund if the arrangement is terminated because the product did not meet our published technical specifications. Generally, we determine that these acceptance provisions are not substantive and therefore should be accounted for as a warranty in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

At the time we enter into an arrangement, we assess the probability of collection of the fee and the terms granted to the customer. For end-user customers, our typical payment terms include payments based on specific due dates, such that all payments for the software license, data collection hardware and related ancillary products, as well as training services included in the original arrangement, are ordinarily paid within one year of contract signing. Professional services are typically rendered on a buy-as-you-go basis such that the customer is invoiced for services on a monthly basis, in arrears. Professional services billings are generally due within 30 days of the invoice date. Our payment terms for indirect channel customers are less than 90 days and payments are typically due within 30 days of the invoice date.

If the arrangement includes a substantive acceptance provision, we defer revenue not meeting the criterion for recognition under Statement of Position 97-2, Software Revenue Recognition, and classify this revenue as deferred revenue, including deferred product revenue. This revenue is recognized, assuming all other conditions for revenue recognition have been satisfied, when the uncertainty regarding acceptance is resolved as generally evidenced by written acceptance or payment of the arrangement fee. If the payment terms for the arrangement are considered extended, other than those arrangements that are financing arrangements as discussed below, we defer revenue on the arrangement until the payment of the arrangement fee becomes due. The deferred amounts related to arrangements with extended payment terms are removed from deferred revenue and accounts receivable, as we have determined that these amounts do not represent either a receivable or deferred revenue until the payment becomes due. We report the allocated fair value of revenues related to the product element of arrangements as a current liability because of the expectation that these revenues will be recognized within 12 months of the balance sheet date.

Since fiscal 1996, we have had a standard practice of providing creditworthy end-user customers the option of financing arrangements beyond one year. Our policy for recognizing revenue and the timing of the recognition for arrangements that are financed is the same as our non-financed arrangements. The financed arrangements, which encompass separate fees for software license, data collection hardware and ancillary products, maintenance and support contracts, and professional services, are evidenced by distinct standard sales, license and maintenance agreements and typically require equal monthly payments. The terms of these arrangements typically range between 18 and 48 months. The short-term component (amounts due within 12 months) of these financing arrangements is included in accounts receivable on our balance sheet. The long-term component is included in other assets. At the time we enter into an arrangement, we assess the probability of collection and whether the arrangement fee is fixed or determinable. We consider our history of collection without concessions as well as whether each new transaction involves similar customers, products and arrangement economics to ensure that the history developed under previous arrangements remains relevant to current arrangements. If the fee is not determined to be collectible, fixed or determinable, we will initially defer the revenue and recognize it when collection becomes probable, which typically is when payment is due, assuming all other conditions for revenue recognition have been satisfied. As a financing arrangement, we apply a present value factor using annual interest rates ranging from 5% to 9%. These rates may vary depending upon when the financing arrangement is entered into and the length of the financing arrangement.

As a result of the AD OPT acquisition completed on November 18, 2004 and the 3i Systems acquisition completed on September 21, 2004, we have begun to provide customized software solutions to our customers. Revenue related to the sale of customized software solutions is recognized on a contract accounting basis in accordance with the provisions of Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. The contract accounting is applied based on a percentage-of-completion basis generally representing labor costs incurred relative to total estimated labor costs. Provisions for estimated losses on contracts are recorded when identified. Deferred revenues are recorded when invoicing exceeds recognized revenues. Revenue derived from the development and delivery of customized software solutions are included in product revenues.

Allowance for Doubtful Accounts and Sales Returns Allowance We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the inability of customers to make required payments. This allowance is based on estimates made by us after consideration of factors such as the composition of the accounts receivable aging and bad debt history. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances and bad debt expense may be required. In addition, we maintain a sales returns allowance to reflect estimated losses for sales returns and adjustments. Sales returns and adjustments are generally due to incorrect ordering of product, general customer satisfaction issues or incorrect billing. This allowance is established by us using estimates based on historical experience. If we experience an increase in sales returns and adjustments, additional allowances and charges against revenue may be required. Estimates used to establish the allowance for doubtful accounts and sales returns allowance have been consistently applied. These reserves may increase when certain factors indicating a need for a reserve increase are present in our accounts receivable aging, bad debt history or sales returns history.

Valuation of Intangible Assets and Goodwill In assessing the recoverability of goodwill and other intangible assets, we must make assumptions regarding the estimated future cash flows and other factors to determine

the fair value of these assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges against these assets in the reporting period in which the impairment is determined. For intangible assets, this evaluation includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over their estimated useful lives, we will record an impairment charge in the amount by which the carrying value of the assets exceeds their fair value. For goodwill, the impairment evaluation includes a comparison of the carrying value of the reporting unit for which goodwill is attributable to that reporting unit s fair value. We have only one reporting unit. The fair value of the reporting unit is based upon the net present value of future cash flows, including a terminal value calculation. If the reporting unit s estimated fair value exceeds the reporting unit s carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed its carrying value, then further analysis would be required to determine the amount of the impairment, if any. If we determine that there is an impairment in either an intangible asset or goodwill, we will be required to record an impairment charge in the reporting period in which the impairment is determined. During fiscal 2005 and fiscal 2004 we completed the annual testing of the impairment of goodwill, and as a result of those tests, we concluded that no impairment of goodwill existed as of July 3, 2005, or July 4, 2004, the annual goodwill impairment measurement dates for fiscal 2005 and 2004, respectively. In addition, we have determined that no events or circumstances currently exist or existed during fiscal 2005 or fiscal 2004 that would indicate that either the fair value of the reporting unit has been reduced, or the carrying value of the intangible assets is no longer recoverable. Therefore, no impairment charges have been recorded in fiscal 2005 or 2004.

Capitalization of Software Development Costs - Costs incurred in the research, design and development of software for sale to others, which we refer to as software development costs, are charged to expense until technological feasibility is established. Thereafter, software development costs are capitalized and amortized to product cost of sales on a straight-line basis over the lesser of three years or the estimated economic lives of the respective products.

In addition to the software development costs described above, costs incurred in the development of software for internal use are charged to expense until it becomes probable that future economic benefits will be realized. Thereafter, certain costs are capitalized and amortized to operating expense on a straight-line basis. We have determined, due to the scope of the project and based on the expected estimated economic life of the software, that the capitalized costs related to the current replacement of the Company s information technology systems will be amortized over a period of five years. For other projects related to the development of software for internal use, we will generally amortize the capitalized costs over the lesser of three years or the estimated economic life of the software. We have capitalized approximately $16.8 million (including internal personnel related costs) in costs associated with the replacement of information technology systems since the start of this project in fiscal 2004.

Income Taxes We account for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and the tax basis 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. We record a valuation allowance in accordance with generally accepted accounting principles to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income in the period in which such determination is made.

Results of Operations

Revenues. We derive revenues from the licensing of our software solutions, sales of our hardware solutions and by providing professional services as well as ongoing customer support and maintenance.

Total Revenues (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Total revenues	$518,658	15%	$450,694	13%	$397,355

The principal factors driving revenue growth in fiscal 2005 were revenues from an increased demand for our maintenance and professional services and for our software and hardware products, and revenues from acquired businesses. The principal factors driving revenue growth in fiscal 2004 were increased demand for our software and hardware products from new customers and continued demand for our professional and maintenance services from new and existing customers, as well as revenues from acquired businesses.

	Fiscal 2005	Fiscal 2004	Fiscal 2003
Revenues from acquired businesses*	$25,051	$7,838	$10,822
Percentage of total revenues	5%	2%	3%

* Revenues from acquired businesses are revenues generated from customers that have been part of an acquired business transaction over the preceding four fiscal quarters.

Product Revenues (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Product revenues	$221,569	13%	$196,739	10%	$178,607
Product revenues as a percent of total revenues	43%		44%		45%

Product revenue growth in fiscal 2005 was primarily due to an increase in demand for our Workforce Central® suite and related software modules as well as our Kronos 4500 terminal. Product revenues attributable to acquired businesses were also a primary factor in the increase in product revenue in fiscal 2005. The increased demand in fiscal 2005 was primarily the result of continued innovation of our existing products, the introduction of new products, and upgrade activity. Product revenues grew in fiscal 2004 primarily due to an increase in customer demand for our Workforce Central suite and related software modules, our Kronos iSeries Central suite, as well as our Kronos 4500 terminal. The increased demand in fiscal 2004 was primarily the result of the introduction of new software features and functionality, as well as new and platform conversion sales. Also impacting product revenue growth in fiscal 2005 and 2004 was the change in deferred product revenues recorded on our balance sheet. Deferred product revenue decreased 60% from $9.8 million at September 30, 2004, to $3.9 million at September 30, 2005. Deferred product revenue increased 295% from $2.5 million at September 30, 2003, to $9.8 million at September 30, 2004. In addition, product

19

revenues in fiscal 2004 benefited less from incremental revenues from acquired businesses due to the specific timing of acquisitions than in fiscal 2003.

	Fiscal 2005	Fiscal 2004	Fiscal 2003
Revenues from acquired businesses	$10,087	$1,629	$2,472
Percentage of product revenues	5%	1%	1%

Maintenance Revenues (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Maintenance revenues	$170,692	18%	$144,997	12%	$129,417
Maintenance revenues as a percent of total revenues	33%		32%		33%

The increase in maintenance revenues in fiscal 2005 and 2004 was principally the result of expansion of our installed base of software solutions, resulting from an increase in demand for our Workforce Central suite and related software modules in the preceding periods, and an increase in the value of maintenance contracts. The increase in the value of the maintenance contracts was principally attributable to sales of capacity upgrade licenses and add-on modules to existing customers. Capacity upgrade and add-on module sales typically result in an increased value of maintenance contracts due to the increased selling price for the products. Revenue generated by a particular maintenance contract is typically based on the related product s selling price. Maintenance revenues in fiscal 2005 were also positively affected by revenues from acquired businesses.

	Fiscal 2005	Fiscal 2004	Fiscal 2003
Revenues from acquired businesses	$8,613	$4,051	$5,479
Percentage of maintenance revenues	5%	3%	4%

20

Professional Services Revenues (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Professional services revenues	$126,397	16%	$108,958	22%	$89,331
Professional services revenues as a percent of total revenues	24%		24%		22%

The growth in professional services revenues in fiscal 2005 was primarily due to an increase in demand for professional services, which was the result of an increase in product sales to new customers, and an increase in available services delivery capacity as compared to fiscal 2004 to meet the increased demand for professional services, as well as an increase in the level of professional services accompanying sales to our customers. The increase in demand was primarily due to an expansion of our complementary product offerings, as well as an expansion of our consulting and value-added professional services offerings. Professional services revenues in fiscal 2005 were also positively impacted by an increase in professional services revenue associated with acquired businesses. The growth in professional services revenues in fiscal 2004 was principally due to an increase in customer demand for professional services, which was the result of an increase in product sales to new customers. An increase in the level of professional services accompanying new and platform conversion sales, which resulted in the delivery of additional professional services hours during the implementations also contributed to the growth in professional services revenue. Further contributing to the growth of the professional services revenue in fiscal 2005 and 2004 was an increase in the utilization rate experienced in the services organization in both years as compared to the respective prior fiscal year.

	Fiscal 2005	Fiscal 2004	Fiscal 2003
Revenues from acquired businesses	$6,351	$2,158	$2,871

Percentage of professional services revenues	5%	2%	3%

International Revenues (dollars in thousands):

International revenues include revenues from our international subsidiaries and sales to independent international resellers.

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
International revenues	$67,061	37%	$48,891	25%	$39,224
International revenues as a percent of total revenues	13%		11%		10%

The growth in international revenues in fiscal 2005 was primarily the result of revenues attributable to acquired businesses. The growth in international revenues in fiscal 2004 was primarily attributable to the timing of several large customer orders which were executed during fiscal 2004. We presently expect international revenues in 2006 to grow at a rate comparable to that of our consolidated results discussed previously in the Overview section.

Gross Profit. Gross profit is the net result of revenues, less cost of sales. Product cost of sales primarily consists of salaries, facilities and related expenses for manufacturing personnel and personnel developing and delivering customized software solutions, costs of materials for the manufacturing of certain hardware products, amortization of capitalized software costs and acquired technology, as well as the cost of royalties paid to third-parties for certain products. Service cost of sales primarily consists of salaries, facilities and related expenses for service personnel, as well as the cost of maintenance contracts paid to third-parties for certain products.

Gross Profit/Gross Margin (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Product gross profit	$173,114	12%	$153,891	13%	$136,100
Service gross profit	$145,506	21%	$120,735	16%	$104,116

Total gross profit	$318,620	16%	$274,626	14%	$240,216
Product gross margin	78%		78%		76%
Service gross margin	49%		48%		48%
Total gross margin	61%		61%		60%

Total gross margin in fiscal 2005 remained consistent with total gross margin in fiscal 2004. Total gross margin increased in fiscal 2004 to 61% from 60% in fiscal 2003 due to an increase in product gross margin in fiscal 2004. This increase in product gross margin was partially offset by a higher proportion of services revenues, which typically carry a lower gross margin.

22

Product gross margin remained consistent in fiscal 2005 as compared to fiscal 2004. Although we experienced a higher gross margin on revenues from our hardware products, primarily due to increased sales volume, this increase in gross margin was offset by a decrease in software gross margin. The decrease in software gross margin was primarily attributable to a higher proportion of software revenues associated with our customized and human resources management system, or HRMS, software products, which generate lower gross margins than our other software products. Product gross margin increased in fiscal 2004 primarily due to a favorable product mix during the periods. Product revenues from hardware and software, which typically carry a higher gross margin than sales of third-party product for resale, were a greater proportion of total product revenues in fiscal 2004 as compared to fiscal 2003 (94% and 92% for fiscal 2004 and fiscal 2003, respectively).

Service gross margin in fiscal 2005 increased as compared to fiscal 2004 primarily due to an increase in the utilization rate and other productivity improvements experienced by the services organization in fiscal 2005. These improvements were the result of more effective management of the services organization as well as our expanding use of more efficient implementation methodologies, such as remote services. Service gross margin in fiscal 2004 remained consistent with fiscal 2003. Although the proportion of professional services revenues (which carries a lower gross profit than maintenance revenues) to total service revenues in fiscal 2004 increased as compared to fiscal 2003, the impact on service gross margin related to this unfavorable service mix was offset by an increase in the utilization rate of the service personnel as compared to fiscal 2003. The utilization rate increase was in part due to an increase in the productivity in our implementations related to sales of our human resources and payroll products.

Net Operating Expenses. Net operating expenses includes sales and marketing expenses, engineering, research and development expenses, general and administrative expenses, amortization of intangible assets and other income, net.

Total Net Operating Expenses (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Net operating expenses	$237,082	16%	$205,024	10%	$185,655
Net operating expenses as a % of total revenues	46%		45%		47%

The increase in total net operating expenses in fiscal 2005 and 2004 was principally attributable to investments in personnel and related compensation, overhead, and support costs in response to increased customer demand and to support the development of new products, including the hiring of additional personnel (approximately $24.3 million and $18.6 million in fiscal 2005 and 2004, respectively). The following discussions on each functional area analyze the spending in further detail.

Sales and Marketing Expenses: Sales and marketing expenses primarily consist of personnel and overhead-related expenses for sales and marketing functions, as well as costs associated with advertising, promotions, tradeshows, seminars, training and other sales and marketing programs (dollars in thousands).

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Sales and marketing expenses	$145,643	11%	$131,233	7%	$122,202
Sales and marketing expenses as a % of total revenues	28%		29%		31%

The increase in sales and marketing expenses in fiscal 2005 was primarily the result of continued investment in sales personnel and related compensation, overhead and support costs associated with higher sales volume and support costs to add new customers and to maximize the penetration of existing customer accounts, which includes the hiring of additional personnel (approximately $11.1 million). Increased spending related to consulting and professional services fees (approximately $2.0 million) as well as an increase in spending on marketing programs (approximately $1.4 million) also contributed to the increase in sales and marketing expenses. The increase in sales and marketing expenses in fiscal 2004, which includes the hiring of additional personnel (approximately $8.9 million) was primarily attributable to investment in sales personnel and related compensation and support costs to add new customers and to maximize the penetration of existing accounts. The decrease in sales and marketing expenses as a percentage of total revenues for fiscal 2005 and 2004 was primarily attributable to leveraging our investments in infrastructure to generate higher sales volumes, as well as an improvement in productivity.

24

Engineering, Research and Development Expenses: Engineering, research and development expenses primarily consist of personnel and overhead-related expenses for engineering functions, as well as costs associated with training and third-party consulting (dollars in thousands).

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Total engineering, research and development spending	$64,512	13%	$56,873	12%	$50,591
Capitalized software development costs	(13,853)	9%	(12,751)	5%	(12,128)
Engineering, research and development expenses	$50,659	15%	$44,122	15%	$38,463
Engineering, research and development expenses as a % of total revenues	10%		10%		10%

The increase in engineering, research and development spending in both fiscal 2005 and 2004 was attributable to continued investment in engineering personnel and their compensation, overhead and support costs, which include the hiring of additional personnel (approximately $6.8 million and $6.7 million in fiscal 2005 and fiscal 2004, respectively). This increase in spending was the result of the continued development and support of new products. The significant project development efforts in fiscal 2005 were principally related to further development and enhancement of the Workforce Central suite, including Workforce HR and Workforce Payroll software, Workforce Scheduler and Workforce Scheduler with Optimization, Altitude®, Total Care, and the Kronos 4500 terminal.

25

General and Administrative Expenses: General and administrative expenses primarily consist of personnel and other overhead-related expenses for administrative, information technology, finance, legal and human resources support functions (dollars in thousands).

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
General and administrative expenses	$41,647	33%	$31,335	21%	$25,884
General and administrative expenses as a % of total revenues	8%		7%		7%

The increase in general and administrative expenses in fiscal 2005 was primarily due to investment in personnel and related compensation, overhead and support costs required for the continued support of our growing operations (approximately $6.4 million). These expenses include the hiring of additional personnel, including costs associated with certain order management related functions that were reclassified from sales and marketing expenses to general and administrative expenses. Also contributing to the increase in general and administrative expenses in fiscal 2005 was an increase in bad debt provisions (approximately $1.4 million) resulting from our periodic calculation of our bad debt reserve requirements. The increase in reserve requirements is in response to a weakening of the accounts receivable aging due in part to the loss of productivity of certain credit and collections personnel in the periods following the completion of the first phase of the implementation of our new information technology systems. Further contributing to the increase in general and administrative expenses in fiscal 2005 was an increase in expenses related to the implementation of our new information technology system (approximately $1.1 million) and an increase in professional fees related to our compliance efforts with respect to the Sarbanes-Oxley Act of 2002 (approximately $1.1 million). The increase in general and administrative expenses in fiscal 2004 was primarily due to investment in personnel and related compensation, overhead and support costs required for the continued support of our growing operations, which includes the hiring of additional personnel (approximately $3.0 million), and an increase in fees related to consulting services and training associated with the replacement of information technology systems (approximately $2.3 million).

Amortization of Intangible Assets and Other Income, Net: Amortization of intangible assets includes the amortization expense related to certain identified intangible assets recorded by us related to acquisitions of other businesses. Customer related intangible assets and intangible assets related to maintenance relationships and technology are generally amortized over lives ranging between 10 and 12 years. Intangible assets related to non-compete agreements are generally amortized over the life of the related non-compete agreement. Other income, net is principally interest income earned from cash as well as investments in our marketable securities and financing arrangements (dollars in thousands).

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Amortization of intangible assets	$4,843	23%	$3,953	14%	$3,481
Amortization of intangible assets as a % of total revenues	1%		1%		1%
Other income, net	$5,710	2%	$5,619	28%	$4,375
Other income, net as a % of total revenues	1%		1%		1%

The increase in amortization of intangible assets in both fiscal 2005 and fiscal 2004 was principally attributable to amortization charges related to acquisitions which were completed during those years. The increase in other income, net in fiscal 2004, as compared to fiscal 2003, was principally attributable to the reversal of excess interest and other tax-related accruals as a result of the favorable completion of certain tax audits during fiscal 2004, as well as an increase in interest income generated from the increased portfolio of marketable securities. These increases were partially offset by lower levels of foreign exchange gains realized during fiscal 2004 as a result of less favorable changes in foreign exchange rates experienced as compared to fiscal 2003.

Income Taxes. The provision for income taxes as a percentage of pre-tax income was 33.9% in fiscal 2005, 33.5% in fiscal 2004 and 36.5% in fiscal 2003. The provision for income taxes was favorably affected in fiscal 2004 as a result of the completion of certain tax audits during fiscal 2004 and certain tax planning strategies. We currently anticipate that the income tax rate will range approximately between 34.0 35.0% in fiscal 2006. Our effective income tax rate may fluctuate between periods as a result of various factors, including income tax credits, foreign tax rate differentials, state income taxes, and the resolution of tax audits or accruals for tax exposures.

Newly Issued Accounting Standards. On December 16, 2004, the FASB issued Statement 123(R), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, or Statement 123. Statement 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or Opinion No. 25, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including the grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure regarding share-based payments is no longer an alternative.

Statement 123(R) must be adopted for annual periods beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not been issued. We adopted Statement 123(R) on October 1, 2005, the beginning of our 2006 fiscal year.

As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25 s intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R) s fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. We expect that the impact of Statement 123(R) will be approximately $0.32 $0.36 per diluted share for the entire fiscal 2006 and $0.08 $ 0.09 per diluted share for the first quarter. Had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note A to our consolidated financial statements included as part of this Annual Report on Form 10-K. Statement

27

123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were $12.6 million, $10.7 million, and $9.1 million in fiscal 2005, 2004 and 2003, respectively.

Liquidity and Capital Resources

We fund our business through cash generated by operations. If near-term demand for our products weakens, or if significant anticipated sales in any quarter do not close when expected, the availability of such funds may be adversely impacted. To be more in line with industry practices, effective April 2, 2005, we completed the change in our business to a process in which our customers are billed in arrears for professional services as the services are delivered, rather than in advance of service delivery. As a result of this change, we have experienced and expect to continue to experience a short-term negative impact on our cash flow from operations. However, we believe that this practice will ultimately favorably impact service revenues and cash flow.

Cash, Cash Equivalents and Marketable Securities (dollars in thousands):

	As of		
	September 30, 2005	September 30, 2004	Percent Change
Cash, cash equivalents and Marketable securities (including short- and long-term	$140,435	$189,142	(26%)
Working capital	$9,620	$10,144	(5%)

The decrease in cash, cash equivalents and marketable securities was due primarily to cash paid for acquired businesses, repurchases of common stock and investments made towards the implementation of our new information technology system, infrastructure improvements and software development projects. These investments were partially offset by cash generated from operations and cash proceeds from stock option exercises.

28

Cash Flow Highlights (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Cash provided by operations	$78,167	(14%)	$90,986	10%	$82,592
Cash used for property, plant and equipment	($25,045)	55%	($16,155)	40%	($11,559)
Cash used for acquisitions of businesses	($74,765)	633%	($10,204)	(35%)	($15,605)
Decreases (increases) in marketable securities	$46,322	185%	($54,769)	58%	($34,641)
Net proceeds from exercise of stock options and employee stock purchase plans	$25,586	5%	$24,275	9%	$22,296
Repurchases of common stock	($39,483)	108%	($18,960)	44%	($13,212)

The decrease in cash provided by operations in fiscal 2005 was primarily attributable to decreases in deferred professional services revenues (due to the impact of billing our customers in arrears for professional services as the services are delivered) and a reduction in deferred product revenues (due to the recognition of revenue on certain customer arrangements). These factors were partially offset by an increase in net income and an increase in taxes payable. The increase in cash provided by operations in fiscal 2004 was principally attributable to an increase in net income, an increased rate of growth in our deferred product and maintenance revenues and an increased rate of growth of accounts payable and accrued expenses due to the timing of vendor payments and incentive payments. These were partially offset by an increase in accounts receivable during fiscal 2004 as compared to the same period in the prior year, which was attributable to an increase in sales volume associated with trade accounts receivable and financing arrangements beyond one year. The accounts receivable balance from the prior year benefited from significant collection efforts, which offset any increases related to sales volume. A decrease in the rate of growth in our deferred professional services revenues further offset the increases in net income, deferred product and maintenance revenue, and accounts payable and accrued expenses discussed above. This decrease was attributable to an increase in our practice of billing customers in arrears as professional services are delivered rather than billing customers in advance of service delivery.

Our use of cash for property, plant and equipment in both fiscal 2005 and 2004 includes investments in information systems and infrastructure to improve and support expanding operations. We anticipate that we will continue to make significant capital investments during fiscal 2006 in conjunction with the replacement of information technology systems. To date, we have invested approximately $18.1 million (excluding internal personnel related costs) related to this project, of which $12.7 million has been capitalized, with the remainder expensed through operations. We expect our total investment in this project (excluding internal personnel related costs) to range between $27.0 million and $28.0 million through the end of fiscal 2006. Our use of cash for the acquisition of businesses in fiscal 2005 was principally related to the acquisitions of AD OPT Technologies Inc. on November 18, 2004, NexTime, Inc. on February 28, 2005, and CTR Systems Time and Attendance, Inc. on September 12, 2005. Please refer to Note I in the Notes to the Condensed Consolidated Financial Statements included in this Annual Report on Form 10-K for further details. We are assessing several other acquisition opportunities that may be completed over the next twelve months, although there can be no assurance that these acquisitions will be completed. Excess cash reserves not required for operations, investments in property, plant and equipment or acquisitions are invested in marketable securities.

29

Stock Repurchases Under Stock Repurchase Program (dollars in thousands):

	Fiscal 2005	% Change 2004 to 2005	Fiscal 2004	% Change 2003 to 2004	Fiscal 2003
Shares of common stock repurchased	884,896	68%	526,541	(2%)	535,050
Cost of shares of common stock repurchased	$39,483	108%	$18,960	44%	$13,212

The common stock repurchased under our stock repurchase program is used to partially cover the shares required for our employee stock option plans and employee stock purchase plan.

During the first quarter of fiscal 2003, we received $2.6 million upon the maturity of a call option arrangement. Since the first quarter of fiscal 2003, we have not had any outstanding call option arrangements.

We lease certain office space, manufacturing facilities and equipment under long-term operating lease agreements. In addition, certain acquisition agreements contain provisions that require us to make a guaranteed payment and/or contingent payments based upon profitability of the business unit or if specified minimum revenue requirements are met. Future minimum rental commitments under operating leases, and future payment obligations related to guaranteed payments are as follows:

Payments Due by Period (dollars in thousands)

Contractual Obligations	Total	Less Than 1 Year	More Than 1 Year, Less Than 3 Years	More Than 3 Years, Less Than 5 Years	More Than 5 Years
Operating lease obligations	$43,823	$10,919	$14,654	$9,766	$8,484
Guaranteed payment obligations	3,292	3,292	-----	----	-----
Total	$47,115	$14,211	$14,654	$9,766	$8,484

We believe that we have adequate cash and investments and operating cash flow to fund our investments in property, plant and equipment, software development costs, cash requirements under operating leases, cash payments related to acquisitions, if any, and any additional stock repurchases for the foreseeable future.

Certain Factors That May Affect Future Operating Results

Except for historical matters, the matters discussed in this Annual Report on Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for the express purpose of availing ourselves of the protection of the safe harbor with respect to all forward-looking statements that involve risks and uncertainties.

Actual operating results may differ from those indicated by forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by us from time to time because of a number of factors including the potential fluctuations in quarterly results, timing and acceptance of new product introductions by us and our competitors, the dependence on our time and labor product line, the ability to attract and retain sufficient technical personnel, the protection of our intellectual property and the potential infringement on our intellectual property rights, competitive pricing pressure and the dependence on alternate distribution channels and on key vendors, as further described below.

Potential Fluctuations in Results. Our operating results, including revenue growth, sources of revenue, effective tax rate and liquidity, may fluctuate as a result of a variety of factors, including general economic conditions and related effects on workforce size, the purchasing patterns of our customers, the diversion of public companies resources to address compliance with new regulatory requirements on internal controls, the mix of products and services sold, the ability to effectively integrate acquired businesses into our operations, the timing of the introduction of new products and product enhancements by us and our competitors, the strategy employed by us in the human resources and payroll market, market acceptance of new products and competitive pricing pressure. We historically have realized a relatively larger percentage of our annual revenues and profits in the third and fourth quarters and a relatively smaller percentage in the first and second quarters of each fiscal year, although there can be no assurance that this pattern will continue. In addition, substantially all of our product revenue and profits in each quarter result from orders received in that quarter. If near-term demand for our products weakens or if significant anticipated sales in any quarter do not close when expected, our revenues for that quarter will be adversely affected. We believe that our operating results for any one period are not necessarily indicative of results for any future period.

New Information Technology System Implementation. We completed the first phase of the implementation of our new information technology system in April 2005, and therefore have begun incurring certain recurring costs that were not incurred prior to completion of this first phase, including amortization and depreciation related costs. During the implementation of and transition to our new information technology systems we may experience some short-term erosion to our productivity resulting from duplicate data entry, troubleshooting and mitigation of any issues related to the rollout of these systems as well as increased costs related to the completion of the implementation, which may have an impact on our cash flows.

Integration of Acquired Businesses. As part of our overall growth strategy, we acquire from time to time resellers of our products and, in certain instances, complementary business lines. Even if we are successful in identifying and acquiring businesses strategic to us, these acquisition activities involve a number of risks, including:

We may find the acquired business does not further our business strategy, that we overpaid for the company or the economic assumptions underlying our acquisition decision have changed or were not accurate;

Difficulties integrating the acquired companies products and services and customer base with our existing product and service offerings;

Difficulties integrating the operations, technology and personnel of the acquired company, or retaining the key personnel of the acquired company critical to its continued operation and success;

Disruption of our ongoing business and diversion of management s attention by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;

Difficulties maintaining uniform standards, controls, procedures and policies across locations and businesses;

Litigation by terminated employees or third parties; and

Problems or liabilities associated with product quality, technology and legal contingencies relating to the acquired business or technology, such as intellectual property matters.

These and other factors could have a material adverse effect on our results of operations, particularly in the case of a larger acquisition or multiple acquisitions in a short period of time. Acquisitions may also have a negative effect on our earnings per share. If we were to proceed with one or more significant acquisitions or investments in which the consideration included cash, we could be required to use a substantial portion of our available cash to consummate such acquisition or investment. To the extent we issue shares of our capital stock or other rights to purchase our capital stock, including options and warrants, existing stockholders may be diluted and earnings per share may decrease. In addition, acquisitions and investments may result in the incurrence of debt, large one-time write-offs, such as acquired in-process research and development costs, and restructuring charges. They may also result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges.

Changes in stock option accounting rules may have a significant adverse affect on our operating results. We have a history of using broad based employee stock option programs to hire, incentivize and retain our workforce in a competitive marketplace. Statement 123 allows companies the choice of either using a fair value method of accounting for options that would result in expense recognition for all options granted, or using an intrinsic value method, as prescribed by Opinion No. 25, with pro forma disclosure of the impact on net income of using the fair value option exercise recognition method. We have previously elected to apply Opinion No. 25 and accordingly, we have not recognized any compensation expense with respect to employee stock options.

In December 2004, the Financial Accounting Standards Board issued Statement 123(R), which would require all companies to measure compensation cost for all share-based payments, including employee stock options, at fair value. This statement is effective for fiscal years beginning after June 15, 2005. Adoption of Statement 123(R) will result in the recognition of stock compensation expense. We adopted Statement 123(R) on October 1, 2005, the beginning of our 2006 fiscal year. The actual impact on future years will depend on a number of factors, including our stock price and the level of future grants and awards made from our stock-based compensation plans. If we had used the fair value method to measure compensation related to stock awards to employees, we would have incurred stock-based compensation expense. Refer to Note A of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on the pro forma net income and stock compensation expense for fiscal 2005, 2004 and 2003. The pro forma effects for fiscal 2005, 2004 and 2003 are not necessarily representative of the effects on the results of operations in the future.

Competition. The workforce management market, which includes time and labor, scheduling, human resources and payroll, is highly competitive. Technological changes such as those allowing for increased use of the Internet have resulted in new entrants into the market. Increased competition could adversely affect our operating results through price reductions or loss of market share. With our efforts to expand our workforce management offering with the introduction of our human resources and payroll product suite and the expansion of our scheduling product offerings, we will continue to meet strong competition. Many of these competitors may be able to adapt more quickly to new or emerging technologies or to devote greater resources to the promotion and sale of their human resources and payroll products. Many of our human resources and payroll competitors have significantly greater financial, technical and sales and marketing resources than us, as well as more experience in delivering human resources and payroll solutions. Although we believe our organization has core competencies that position us strongly in the marketplace, maintaining our technological and other advantages over competitors will require continued investment in research and development as well as marketing and sales programs. There can be no assurance that we will have sufficient resources to make such investments or be able to achieve the technological advances necessary to maintain our competitive advantages. There can be no assurance that we will be able to compete successfully in the human resources and payroll marketplace, and our failure to do so could have a material adverse impact on our business, prospects, financial condition and operating results.

Dependence on Time and Labor Product Line. To date, the substantial majority of our revenues have been attributable to sales of time and labor systems and related services. Although we have introduced products for scheduling solutions and the licensed human resources and payroll market, we expect that our dependence on the time and labor product line for revenues will continue for the foreseeable future. Competitive pressures or other factors could cause our time and labor products to lose market acceptance or experience significant price erosion, adversely affecting the results of our operations.

Product Development and Technological Change. Continual change and improvement in computer software and hardware technology characterize the markets for workforce management systems. Our future success will depend largely on our ability to enhance the capabilities and increase the performance of our existing products and to develop new products and interfaces to third-party products on a timely basis to meet the increasingly sophisticated needs of our customers. Although we are continually seeking to further enhance our workforce management offerings and to develop new products and interfaces, there can be no assurance that these efforts will succeed, or that, if successful, such product enhancements or new products will achieve widespread market acceptance, or that our competitors will not develop and market products that are superior to our products or achieve greater market acceptance.

Dependence on Alternate Distribution Channels. We market and sell our products through our direct sales organization, independent resellers and ADP under an original equipment manufacturer agreement. In fiscal 2005, approximately 9% of our revenue was generated through sales to resellers and ADP. A reduction in the sales efforts of either our major resellers or ADP, or termination or changes in their relationships with us, could have a material adverse effect on the results of our operations.

Attracting and Retaining Sufficient Technical Personnel for Product Development, Support and Sales. We have encountered intense competition for experienced technical personnel for product development, technical support and sales and expect such competition to continue in the future. Any inability to attract and retain a sufficient number of qualified technical personnel could adversely affect our ability to produce, support and sell products in a timely manner.

Protection of Intellectual Property. We have developed, and through our acquisitions of businesses and software, acquired, proprietary technology and intellectual property rights. Our success is dependent upon our ability to further develop and protect our proprietary technology and intellectual property rights. We seek to protect products, software, documentation and other written materials primarily through a combination of trade secret, patent, trademark and copyright laws, confidentiality procedures and contractual provisions. While we have attempted to safeguard and maintain our proprietary rights, it is unknown whether we have been or will be successful in doing so.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that is regarded as proprietary. Policing unauthorized use of our products is difficult. 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, particularly in foreign countries where the laws may not protect proprietary rights as fully as in the United States. We can offer no assurance that we can adequately protect our proprietary rights or that our competitors will not reverse engineer or independently develop similar technology.

Infringement of Intellectual Property Rights. We cannot provide assurance that others will not claim that our developed or acquired intellectual property rights infringe on their intellectual property rights or that we do not in fact infringe on those intellectual property rights.

Any litigation regarding intellectual property rights could be costly and time-consuming and divert the attention of our management and key personnel from business operations. The complexity of the technology involved in our products and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements, and in this event, we may not be able to obtain royalty or license agreements on acceptable terms, if at all. We may also be subject to significant damages or an injunction against the use of our products. A successful claim of patent or other intellectual property infringement against us could cause immediate and substantial damage to our business and financial condition.

Additional Stock Option Program Information

Stock Award Program Description. We intend that our stock award program be our primary vehicle for offering long-term incentives and rewarding executives and key employees. Awards are granted to key employees based upon prior performance, the importance of our retaining their services and the potential for their performance to help us attain our long-term goals. However, there is no set formula for the granting of awards to individual executives or employees.

Awards are generally granted annually in conjunction with the compensation committee s formal review of the individual performance of key executives, including our executive chairman and chief executive officer, and their contributions to our company. In fiscal 2005, the awards took the form of stock options and 77% of the options granted went to employees other than our named executive officers (as set forth in the table below). All the awards are granted from our 2002 Stock Incentive Plan. Options, which are granted at the fair market value on the date of grant, typically vest in four equal annual installments beginning one year from the date of grant and typically have a contractual life of four years and six months.

Distribution and Dilutive Effect of Awards.

Employee and Executive Stock Awards:

	For the Fiscal Year Ended September 30, 2005	September 30, 2004	September 30, 2003
Net grants during period as % of outstanding shares	3.3%	3.9%	4.1%
Grants to named executive officers* during period as % of awards granted	22.6%	24.0%	24.1%
Grants to named executive officers* during period as % of shares outstanding	0.7%	0.9%	1.0%

*The following individuals are our named executive officers for fiscal 2005:

Name	Title
Mark S. Ain	Executive Chairman and former Chief Executive Officer and Chairman of the Board
Aron J. Ain	Chief Executive Officer and former Executive Vice President, Chief Operating Officer
Paul A. Lacy	President and Chief Financial Officer and former Executive Vice President and Chief Financial and Administrative Officer
Peter C. George	Senior Vice President, Engineering and Chief Technology Officer and former Vice President, Engineering and Chief Technology Officer
James J. Kizielewicz	Senior Vice President, Corporate Strategy and former Vice President, Corporate Strategy

The figures for fiscal 2004 and 2003 reflect the named executive officers as reported in our definitive proxy statements for the Annual Meeting of Stockholders for 2004 and 2003, respectively, as filed with the Securities and Exchange Commission.

General Award Information.

Summary of Award Activity

(in thousands, except per share data)	Shares Available for Awards	Number of Option Shares	Weighted-Average Exercise Price per Share
Outstanding at September 30, 2004	2,492	3,529	$24.67
Grants	(1,032)	1,032	48.60
Exercises	--	(1,072)	18.03
Cancellations *(1)*	108	(127)	33.35
Outstanding at September 30, 2005	1,568	3,362	$33.80

(1) Includes 19,672 shares cancelled under the 1992 Equity Incentive Plan, which expired by its terms on March 27, 2002.

In-the-Money and Out-of-the-Money Award Information as of September 30, 2005

(in thousands, except per share data)

(in thousands except per share data)	Exercisable		Unexercisable		Total	
		Weighted-Average Exercise Price per Share		Weighted-Average Exercise Price per		Weighted-Average Exercise Price per

				Share		Share
	Shares		Shares		Shares	
In-the-Money	639	$25.42	1,705	$28.17	2,344	$27.42
Out-of-the-Money *(1)*	5	45.40	1,013	48.54	1,018	48.52
Total Awards Outstanding	644	$25.56	2,718	$35.76	3,362	$33.80

(1) Out-of-the-Money awards are those awards with an exercise price equal to or above $44.64, the closing price of

our common stock as quoted by NASDAQ on September 30, 2005.

36

Executive Awards. The following tables summarize award grants and exercises during the fiscal year ended September 30, 2005 to our named executive officers and the value of the awards held by such persons at the end of fiscal 2005.

Awards Granted to Named Executive Officers

Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Award Term *(4)*	
	Number of Securities Underlying Awards Granted *(1)*	Percent of Total Awards Granted to Employees in Fiscal Year *(2)*	Exercise or Base Price per Share *(3)*		10%

Name				Expiration Date	5%	
Mark S. Ain Executive Chairman	56,000	5.4%	$48.21	05/22/09	$663,855	$1,450,595
Aron J. Ain Chief Executive Officer	50,750	4.9%	48.21	05/22/09	601,618	1,314,601
Paul A. Lacy President and Chief Financial Officer	50,750	4.9%	48.21	05/22/09	601,618	1,314,601
Peter C. George Senior V.P., Engineering and Chief Technology Officer	37,750	3.7%	48.21	05/22/09	447,509	977,856
James J. Kizielewicz Senior V.P., Corporate Strategy	37,750	3.7%	48.21	05/22/09	447,509	977,856

(1) Each award vests in four equal annual installments commencing one year from the date of grant.

(2) Based on an aggregate of 1,031,500 shares subject to awards granted to our employees in fiscal 2005.

(3) The exercise price of each award was equal to the fair market value of our common stock on the date of grant as reported by The NASDAQ National Market.

(4) Amounts represent hypothetical gains that could be achieved for the respective award if exercised at the end of the award term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective awards were granted to their expiration date (and are shown net of the exercise price, but do not include deductions for taxes or other expenses associated with the exercise of the award or the sale of the underlying shares). Actual gains, if any, on the exercises will depend on the future performance of the common stock, the holder s continued employment with us through the vesting period and the date on which the awards are exercised.

Award Exercises and Remaining Holdings of Named Executive Officers

Name	Shares Acquired on Exercise	Value Realized *(1)*	Number of Securities Underlying Unexercised Awards at Fiscal Year-End Exercisable/ Unexercisable	Value of Unexercised In-the-Money Awards at Fiscal Year-End *(2)* Exercisable/Unexercisable
Mark S. Ain	84,375	$3,139,425	77,250/193,250	$1,547,153/2,306,363
Aron J. Ain	50,874	1,752,882	14,625/141,501	85,264/1,518,831
Paul A. Lacy	34,874	1,225,342	44,625/141,501	927,364/1,518,831
Peter C. George	37,438	1,395,568	44,875/106,375	925,951/1,158,514
James J. Kizielewicz	19,688	733,145		