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BMC Software Announces Third Quarter Results

HOUSTON — (February 3, 2005) — BMC Software, Inc. [NYSE: BMC] today announced financial results for its third quarter of fiscal 2005 ended December 31, 2004.

BMC Software's net earnings excluding special items for the third quarter of fiscal 2005 were \$49.6 million, or \$0.22 per diluted common share, which compares to net earnings of \$43.0 million, or \$0.19 per diluted common share a year ago. The Company was within its guidance range of \$0.18 to \$0.23 per diluted common share. Fiscal 2005 third quarter net earnings on a GAAP basis were \$36.4 million, or \$0.16 per share, which compares to a net loss of \$44.4 million, or a loss of \$0.20 per share, in the third quarter of fiscal 2004. Included in the financial tables is a reconciliation of results excluding special items and GAAP results.

Total revenues in the third quarter of fiscal 2005 were \$386.8 million, an increase of three percent compared to the third quarter of fiscal 2004. The Company was within its guidance range of \$380 to \$395 million. Operating expenses excluding \$18.7 million in special items were \$345.6 million, compared to \$332.1 million in the same quarter a year ago excluding \$104.1 million in special items. Third quarter fiscal 2005 operating expenses excluding special items includes the write-down of some IT assets of approximately \$5 million.

"I am pleased that we met our revenue and earnings per share goals in the third quarter and delivered strong cash flow from operations of \$127.6 million while continuing to maintain our solid balance sheet with over \$1.1 billion in cash and marketable securities and a record high \$1.49 billion in deferred revenues," said Bob Beauchamp, president and CEO, BMC Software. "Our BSM strategy is helping customers meet their compliance goals as well as reduce costs, automate processes and run more efficient IT organizations to support their businesses. Today, these are decision-drivers for customer purchases."

Other income was \$27.0 million in the third quarter, which included a gain of \$8.0 million related to the termination of the Company's securitization arrangements, which the Company has not utilized for new receivables in the last eight quarters.

License bookings in the third quarter of fiscal 2005 were \$191.1 million, a 30 percent increase over the second quarter of fiscal 2005 and a 19 percent decrease over the third quarter of

fiscal 2004. Excluding one very large transaction in the year ago quarter, license bookings were down three percent. The following table illustrates license bookings:

Third Quarter FY05 Business Segment Results

(\$ Millions)	License Revenues	Net Change in Deferred License Revenues	License Bookings*	License Bookings Percent Growth vs. Q3FY04	License Bookings Percent Growth vs. Q2FY05
DM – Mainframe	44.8	10.9	55.7	(37)%	19%
MAINVIEW®	14.6	8.9	23.5	(2)%	190%
Mainframe Management	59.4	19.8	79.2	(30)%	44%
Scheduling & Output Mgmt.	17.2	1.0	18.2	(27)%	44%
DM – Distributed Systems	11.1	(.5)	10.6	(26)%	(13)%
PATROL®	28.2	5.3	33.5	(30)%	50%
Distributed Systems Mgmt.	56.5	5.8	62.3	(29)%	32%
Service Management	40.5	5.0	45.5	45%	7%
Identity Management	3.5	(0.2)	3.3	(34)%	83%
Total BMC	161.0	30.1	191.1	(19)%	30%

Due to the exclusion of the non-material category of "Other," all totals do not foot.

*License bookings measure the value of new license contracts signed during the quarter, including both the amount that goes to the income statement and the amount that goes to the deferred license revenue account on the balance sheet. License bookings can be calculated by adding license revenues and the net change in the deferred license revenue balance.

Cash flows from operations were \$127.6 million in the third quarter and \$227.7 million for the first nine months of fiscal 2005, compared to \$74.3 million in the third quarter last year and \$232.4 million for the first nine months of fiscal 2004.

BMC Software continued its stock repurchase program by spending \$25.0 million to repurchase approximately 1.4 million shares during the third fiscal quarter. Approximately \$237 million remains in the company's \$1 billion share repurchase program.

Fourth Quarter and Fiscal 2005 Guidance

The Company expects fourth quarter revenues to be in the \$410 to \$425 million range and expects fourth quarter earnings per share excluding special items to be in the \$0.17 to \$0.22 per share range. Fourth quarter estimates do not include an estimated \$0.06 per share of amortization of acquired technology and intangibles.

The Company expects full year fiscal 2005 revenues to be in the \$1.478 to \$1.493 billion range and expects fiscal 2005 earnings per share excluding special items to be in the \$0.69 to \$0.74 per share range. Fiscal 2005 estimates do not include an estimated \$0.32 per share of special items.

BMC Software expects cash flows from operations for fiscal 2005 to be over \$400 million, which is unchanged from prior expectations.

A conference call to discuss third quarter results is scheduled for today, February 3, 2005 at 11:00 a.m. central time. Those interested in participating may call (719) 457-2727 and use the passcode BMC. To access a replay of the conference call, which will be available for one week, dial (719) 457-0820 and use the passcode BMC. A live webcast of the conference call and presentation will be available on the Company's website at www.bmc.com/investors. A replay of the webcast will be available within 24 hours and archived on the website for 90 days.

Non-GAAP Financial Measures

This press release includes financial measures for net earnings, earnings per share (EPS) and operating expenses that exclude certain charges and, therefore, have not been calculated in accordance with U.S. generally accepted accounting principles (GAAP). A detailed reconciliation between the GAAP results and results excluding special items (non-GAAP) is included with the financial tables accompanying this press release. BMC Software has provided these non-GAAP measures in its press releases reporting historical financial results because the Company believes these measures provide a consistent basis for comparison between quarters, as they are not influenced by certain non-cash or non-recurring expenses and are therefore useful to investors in helping them understand the financial condition of BMC Software by focusing on the performance of its core operations. Management uses these non-GAAP financial measures internally to evaluate the Company's performance and as a key variable in determining management compensation. These non-GAAP measures should not be considered an alternative to GAAP, and these non-GAAP measures may not be comparable to information provided by other companies.

About BMC Software

BMC Software, Inc. [NYSE:BMC] is a leading provider of enterprise management solutions that empower companies to manage their IT infrastructure from a business perspective. Delivering

Business Service Management, BMC Software solutions span enterprise systems, applications, databases and service management. Founded in 1980, BMC Software has offices worldwide and fiscal 2004 revenues of more than \$1.4 billion. For more information about BMC Software, visit www.bmc.com.

This news release contains both historical information and forward-looking information. Statements of plans, objectives, strategies and expectations for future operations and results, identified by words such as "believe," "anticipate," "expect," "estimate" and "guidance" are forward-looking statements. Numerous important factors affect BMC Software's operating results and could cause BMC Software's actual results to differ materially from the results indicated by this press release or by any other forward-looking statements made by, or on behalf of, BMC Software, and there can be no assurance that future results will meet expectations, estimates or projections. These factors include, but are not limited to, the following: 1) BMC Software's revenues and earnings are subject to a number of factors, including the significant percentage of quarterly sales typically closed at the end of each quarter, that make estimation of operating results prior to the end of a quarter extremely uncertain; 2) BMC Software's operating costs and expenses are relatively fixed over the short term; 3) increased competition and pricing pressures could adversely affect BMC Software's earnings; 4) growth in BMC Software's mainframe revenues is dependent on demand for significant additional mainframe MIPS capacity; 5) BMC Software's maintenance revenue could decline if maintenance renewal rates decline or if license revenues do not grow; 6) new software products and product strategies may not be timely introduced or successfully adopted; 7) BMC Software's quarterly cash flow from operations is and has been volatile and is dependent upon a number of factors described in BMC Software's filings with the SEC; 8) BMC Software's effective tax rate is subject to quarterly fluctuation and any change in such tax rate could affect the Company's earnings; and 9) the additional risks and important factors described in BMC Software's quarterly reports on Form 10-Q and in its Annual Report on Form 10-K for the fiscal year ended March 31, 2004 and other filings with the SEC. BMC Software undertakes no obligation to update information contained in this release.

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BMC SOFTWARE, INC. AND SUBSIDIARIES
STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,		Percentage Change
	Fiscal 2004	Fiscal 2005	
	(In millions, except per share data)		
Revenues:			
License	\$ 162.6	\$ 161.0	-1%
Maintenance	190.4	202.2	6%
Professional services	21.8	23.6	8%
Total revenues	<u>374.8</u>	<u>386.8</u>	3%
Selling and marketing expenses	177.4	145.7	-18%
Research, development and support expenses	177.5	116.4	-34%
Cost of professional services	19.9	24.9	25%
General and administrative expenses	46.9	57.8	23%
Amortization of acquired technology & intangibles	14.5	19.5	34%
Total operating expenses	<u>436.2</u>	<u>364.3</u>	-16%
Operating income (loss)	(61.4)	22.5	n/m
Other income, net	17.0	27.0	59%
Earnings (loss) before income taxes	(44.4)	49.5	n/m
Income tax provision (benefit)	-	13.1	n/m
Net earnings (loss)	<u>\$ (44.4)</u>	<u>\$ 36.4</u>	n/m
Diluted earnings (loss) per share	<u>\$ (0.20)</u>	<u>\$ 0.16</u>	n/m
Shares used in computing diluted earnings (loss) per share	<u>225.5</u>	<u>224.4</u>	0%

BMC SOFTWARE, INC. AND SUBSIDIARIES
STATEMENTS OF OPERATIONS EXCLUDING SPECIAL ITEMS

(Unaudited)

	Three Months Ended December 31,		
	Fiscal 2004	Fiscal 2005	Percentage Change
	(In millions, except per share data)		
Revenues:			
License	\$ 162.6	\$ 161.0	-1%
Maintenance	190.4	202.2	6%
Professional services	21.8	23.6	8%
Total revenues	<u>374.8</u>	<u>386.8</u>	3%
Selling and marketing expenses	140.2	145.8	4%
Research, development and support expenses	127.2	117.1	-8%
Cost of professional services	19.6	24.9	27%
General and administrative expenses	45.1	57.8	28%
Total operating expenses	<u>332.1</u>	<u>345.6</u>	4%
Operating income (loss)	42.7	41.2	-4%
Other income, net	17.0	27.0	59%
Earnings (loss) before income taxes	59.7	68.2	14%
Income tax provision (benefit)	16.7	18.6	11%
Net earnings (loss)	<u>\$ 43.0</u>	<u>\$ 49.6</u>	15%
Diluted earnings (loss) per share	<u>\$ 0.19</u>	<u>\$ 0.22</u>	16%
Shares used in computing diluted earnings (loss) per share	<u>227.0</u>	<u>224.4</u>	-1%

See the accompanying Supplemental Analysis of Effect of Special Items, where these Statements of Operations Excluding Special Items are reconciled to the Statements of Operations prepared in accordance with U.S. generally accepted accounting principles.

BMC SOFTWARE, INC. AND SUBSIDIARIES
STATEMENTS OF OPERATIONS

(Unaudited)

	Nine Months Ended December 31,		Percentage Change
	Fiscal 2004	Fiscal 2005	
	(In millions, except per share data)		
Revenues:			
License	\$ 394.9	\$ 393.8	0%
Maintenance	562.1	606.9	8%
Professional services	61.6	67.2	9%
Total revenues	<u>1,018.6</u>	<u>1,067.9</u>	5%
Selling and marketing expenses	455.5	401.6	-12%
Research, development and support expenses	451.9	343.5	-24%
Cost of professional services	58.9	68.6	16%
General and administrative expenses	132.2	150.3	14%
Settlement of litigation	-	11.3	n/m
Acquired research and development	-	0.2	n/m
Amortization of acquired technology & intangibles	45.4	55.0	21%
Total operating expenses	<u>1,143.9</u>	<u>1,030.5</u>	-10%
Operating income (loss)	(125.3)	37.4	n/m
Other income, net	55.6	60.3	8%
Earnings (loss) before income taxes	(69.7)	97.7	n/m
Income tax provision (benefit)	(6.0)	37.9	n/m
Net earnings (loss)	<u>\$ (63.7)</u>	<u>\$ 59.8</u>	n/m
Diluted earnings (loss) per share	<u>\$ (0.28)</u>	<u>\$ 0.27</u>	n/m
Shares used in computing diluted earnings (loss) per share	<u>227.4</u>	<u>223.7</u>	-2%

**BMC SOFTWARE, INC. AND SUBSIDIARIES
BALANCE SHEETS**

	March 31, 2004	December 31, 2004 (Unaudited)
	(In millions)	
Current assets:		
Cash and cash equivalents	\$ 612.3	\$ 589.8 (a)
Marketable securities	296.6	131.0 (a)
Trade accounts receivable, net	172.6	206.8
Current trade finance receivables, net	175.5	152.2
Other current assets	167.9	145.7
Total current assets	<u>1,424.9</u>	<u>1,225.5</u>
Property and equipment, net	396.0	400.4
Software development costs and related assets, net	138.9	131.8
Long-term marketable securities	304.1	379.9 (a)
Long-term finance receivables, net	158.7	187.8
Acquired technology, goodwill and intangibles, net	520.1	671.3
Other long-term assets	102.1	156.7
	<u>\$ 3,044.8</u>	<u>\$ 3,153.4</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 318.5	\$ 339.5
Current portion of deferred revenue	668.4	729.2
Total current liabilities	<u>986.9</u>	<u>1,068.7</u>
Long-term deferred revenue	733.2	756.1
Other long-term liabilities	109.5	85.6
Total stockholders' equity	<u>1,215.2</u>	<u>1,243.0</u>
	<u>\$ 3,044.8</u>	<u>\$ 3,153.4</u>

(a) Total cash and marketable securities are \$1,100.7 at December 31, 2004.

BMC SOFTWARE, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31,	
	Fiscal 2004	Fiscal 2005
	(In millions)	
Cash flows from operating activities:		
Net earnings (loss)	\$ (63.7)	\$ 59.8
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	198.9	159.7
(Gain) loss on marketable securities	(0.9)	1.9
(Gain) loss on previously securitized finance receivables		(8.0)
Other non-cash charges	1.5	4.1
(Increase) decrease in finance receivables	3.1	17.5
Increase (decrease) in payables to third-party financing institutions for finance receivables	(28.1)	(26.6)
Increase (decrease) in accrued exit costs	78.0	(21.9)
Net change in trade receivables, payables, deferred revenue and other components of working capital	43.6	41.2
Net cash provided by (used in) operating activities	<u>232.4</u>	<u>227.7</u>
Cash flows from investing activities:		
Cash paid for technology acquisitions and other investments, net of cash acquired	(9.0)	(215.8)
Adjustment of cash paid for Remedy acquisition	7.2	-
Return of capital for cost-basis investments	0.1	0.7
Proceeds from sale of technology	2.0	-
Cash receipts from previously securitized finance receivables	-	10.0
Purchases of marketable securities	(273.9)	(183.1)
Proceeds from maturities/sales of marketable securities	160.3	280.8
Purchases of property and equipment	(31.8)	(48.0)
Capitalization of software development costs and related assets	(38.3)	(48.1)
Net cash provided by (used in) investing activities	<u>(183.4)</u>	<u>(203.5)</u>
Cash flows from financing activities:		
Payments on capital leases	(2.2)	(3.7)
Stock options exercised and other	13.1	21.8
Treasury stock acquired	(120.1)	(70.0)
Net cash provided by (used in) financing activities	<u>(109.2)</u>	<u>(51.9)</u>
Effect of exchange rate changes on cash	4.3	5.2
Net change in cash and cash equivalents	(55.9)	(22.5)
Cash and cash equivalents, beginning of period	500.1	612.3
Cash and cash equivalents, end of period	<u>\$ 444.2</u>	<u>\$ 589.8</u>

BMC SOFTWARE, INC. AND SUBSIDIARIES
SUPPLEMENTAL ANALYSIS OF EFFECT OF SPECIAL ITEMS

(Unaudited)

	Three Months Ended December 31, 2003			Three Months Ended December 31, 2004		
	As Reported	Special Items	Excluding Special Items	As Reported	Special Items	Excluding Special Items
	(In millions, except per share data)			(In millions, except per share data)		
Revenues:						
License	\$ 162.6	\$ -	\$ 162.6	\$ 161.0	\$ -	\$ 161.0
Maintenance	190.4	-	190.4	202.2	-	202.2
Professional services	21.8	-	21.8	23.6	-	23.6
Total revenues	<u>374.8</u>	<u>-</u>	<u>374.8</u>	<u>386.8</u>	<u>-</u>	<u>386.8</u>
Selling and marketing expenses	177.4	(37.2) (a)	140.2	145.7	0.1 (b)	145.8
Research, development and support expenses	177.5	(50.3) (a)	127.2	116.4	0.7 (b)	117.1
Cost of professional services	19.9	(0.3) (a)	19.6	24.9	-	24.9
General and administrative expenses	46.9	(1.8) (a)	45.1	57.8	-	57.8
Amortization of acquired technology & intangibles	14.5	(14.5) (c)	-	19.5	(19.5) (c)	-
Total operating expenses	<u>436.2</u>	<u>(104.1)</u>	<u>332.1</u>	<u>364.3</u>	<u>(18.7)</u>	<u>345.6</u>
Operating income (loss)	(61.4)	104.1	42.7	22.5	18.7	41.2
Other income, net	17.0	-	17.0	27.0	-	27.0
Earnings (loss) before income taxes	(44.4)	104.1	59.7	49.5	18.7	68.2
Income tax provision (benefit)	-	16.7 (d)	16.7	13.1	5.5 (d)	18.6
Net earnings (loss)	<u>\$ (44.4)</u>	<u>\$ 87.4</u>	<u>\$ 43.0</u>	<u>\$ 36.4</u>	<u>\$ 13.2</u>	<u>\$ 49.6</u>
Diluted earnings (loss) per share	<u>\$ (0.20)</u>	<u>\$ 0.39</u>	<u>\$ 0.19</u>	<u>\$ 0.16</u>	<u>\$ 0.06</u>	<u>\$ 0.22</u>
Shares used in computing diluted earnings (loss) per share	<u>225.5</u>	<u>225.5</u>	<u>227.0</u>	<u>224.4</u>	<u>224.4</u>	<u>224.4</u>
(a) Exit costs and related charges		\$ (89.6)		\$ -		
(b) Changes in estimates related to exit activities		\$ -		\$ 0.8		
(c) Amortization of acquired technology & intangibles		\$ (14.5)		\$ (19.5)		
(d) Tax effect of special items		\$ 16.7		\$ 5.5		

BMC SOFTWARE, INC. AND SUBSIDIARIES
SUPPLEMENTAL ANALYSIS OF EFFECT OF SPECIAL ITEMS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2004

(Unaudited)

	As Reported	Special Items	Excluding Special Items
(In millions, except per share data)			
Revenues:			
License	\$ 393.8	\$ -	\$ 393.8
Maintenance	606.9	-	606.9
Professional services	67.2	-	67.2
Total revenues	1,067.9	-	1,067.9
Selling and marketing expenses	401.6	(1.5) (a)	400.1
Research, development and support expenses	343.5	4.0 (a)	347.5
Cost of professional services	68.6	-	68.6
General and administrative expenses	150.3	-	150.3
Settlement of litigation	11.3	(11.3) (b)	-
Acquired research and development	0.2	(0.2) (c)	-
Amortization of acquired technology & intangibles	55.0	(55.0) (d)	-
Total operating expenses	1,030.5	(64.0)	966.5
Operating income (loss)	37.4	64.0	101.4
Other income, net	60.3	-	60.3
Earnings (loss) before income taxes	97.7	64.0	161.7
Income tax provision (benefit)	37.9	6.9 (e,f)	44.8
Net earnings (loss)	\$ 59.8	\$ 57.1	\$ 116.9
Diluted earnings (loss) per share	\$ 0.27	\$ 0.25	\$ 0.52
Shares used in computing diluted earnings (loss) per share	223.7	223.7	223.7

(a) Changes in estimates related to exit activities	\$ 2.5
(b) Settlement of litigation	\$ (11.3)
(c) Acquired research and development for immaterial acquisition	\$ (0.2)
(d) Amortization of acquired technology & intangibles	\$ (55.0)
(e) Tax effect of special items	\$ 18.0
(f) Adjustments to income tax accruals	\$ (11.1)