
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED August 31, 2006

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 000-51942

LAWSON SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

20-3469219
(I.R.S. Employer
Identification Number)

**380 ST. PETER STREET
ST. PAUL, MINNESOTA 55102**
(Address of principal executive offices)

(651) 767-7000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

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

The number of shares of the registrant's common stock outstanding as of September 29, 2006 was 187,459,248.

LAWSON SOFTWARE, INC.

Form 10-Q
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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LAWSON SOFTWARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	August 31, 2006	May 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 211,807	\$ 210,154
Marketable securities	72,046	90,348
Trade accounts receivable, net (Note 6)	151,826	159,933
Income taxes receivable	5,198	4,577
Deferred income taxes - current	21,465	21,465
Prepaid expenses and other assets	27,919	28,085
Total current assets	<u>490,261</u>	<u>514,562</u>
Long-term marketable securities	5,147	6,079
Property and equipment, net	27,705	26,189
Goodwill (Note 10)	453,921	454,550
Other intangible assets, net	149,490	154,695
Deferred income taxes - non-current	9,294	9,294
Other assets	6,377	5,283
Total assets	<u>\$ 1,142,195</u>	<u>\$ 1,170,652</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Long-term debt - current	\$ 3,645	\$ 3,475
Accounts payable	17,351	26,137
Accrued compensation and benefits	77,315	88,245
Other accrued liabilities	69,046	74,882
Income taxes payable	4,700	3,195
Deferred income taxes - current	4,221	4,221
Deferred revenue (Note 7)	152,242	146,206
Total current liabilities	<u>328,520</u>	<u>346,361</u>
Long-term debt - non-current	5,368	4,275
Deferred income taxes - non-current	9,039	9,039
Long-term deferred revenue (Note 7)	8,249	10,840
Other long-term liabilities	11,192	8,478
Total liabilities	<u>362,368</u>	<u>378,993</u>
Commitments and Contingencies (Note 11)		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 42,562 shares authorized; no shares issued or outstanding	—	—
Common stock; \$0.01 par value; 750,000 shares authorized; 196,761 and 196,105 shares issued, respectively; 186,412 and 185,651 shares outstanding at August 31, 2006 and May 31, 2006, respectively	1,967	1,961
Additional paid-in capital	805,052	800,168
Treasury stock, at cost; 10,350 and 10,454 shares at August 31, 2006 and May 31, 2006 respectively	(69,067)	(69,237)
Deferred stock-based compensation	—	(131)
Retained earnings	22,900	38,692
Accumulated other comprehensive income	18,975	20,206
Total stockholders' equity	<u>779,827</u>	<u>791,659</u>
Total liabilities and stockholders' equity	<u>\$ 1,142,195</u>	<u>\$ 1,170,652</u>

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

LAWSON SOFTWARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended	
	August 31, 2006	August 31, 2005
Revenues:		
License fees	\$ 16,768	\$ 18,604
Maintenance	69,584	43,613
Consulting	75,485	25,697
Total revenues	<u>161,837</u>	<u>87,914</u>
Cost of revenues:		
Cost of license fees	5,042	2,421
Cost of maintenance	14,688	7,348
Cost of consulting	69,734	25,372
Total cost of revenues	<u>89,464</u>	<u>35,141</u>
Gross profit	72,373	52,773
Operating expenses:		
Research and development	20,325	14,500
Sales and marketing	36,892	18,972
General and administrative	25,990	16,872
Restructuring (Note 9)	3,392	10
Amortization of acquired intangibles	2,389	374
Total operating expenses	<u>88,988</u>	<u>50,728</u>
Operating (loss) income	(16,615)	2,045
Other income:		
Interest income	3,593	2,305
Interest expense	(267)	(6)
Other income, net	40	—
Total other income	<u>3,366</u>	<u>2,299</u>
(Loss) income before income taxes	(13,249)	4,344
Provision for income taxes	2,543	167
Net (loss) income	<u>\$ (15,792)</u>	<u>\$ 4,177</u>
Net (loss) income per share:		
Basic	<u>\$ (0.08)</u>	<u>\$ 0.04</u>
Diluted	<u>\$ (0.08)</u>	<u>\$ 0.04</u>
Shares used in computing net (loss) income per share:		
Basic	<u>185,845</u>	<u>101,151</u>
Diluted	<u>185,845</u>	<u>105,463</u>

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

LAWSON SOFTWARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended	
	August 31, 2006	August 31, 2005
Cash flows from operating activities:		
Net (loss) income	\$ (15,792)	\$ 4,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,718	3,726
Deferred income taxes	52	65
Provision for doubtful accounts	1,955	(733)
Excess tax benefits from stock options	(329)	—
Tax (commitment) benefit from stockholder transactions for option activity	(44)	173
Stock-based compensation expense	2,084	6,500
Amortization of discounts on notes payable	—	13
Amortization of discount and premiums on marketable securities	(151)	21
Changes in operating assets and liabilities, net of effect from acquisitions:		
Trade accounts receivable	5,982	(878)
Prepaid expenses and other assets	(2,827)	8,449
Accounts payable	(9,020)	(1,942)
Accrued and other liabilities	(13,855)	(2,559)
Income taxes payable	877	30
Deferred revenue and client deposits	4,338	(989)
Net cash (used in) provided by operating activities	<u>(17,012)</u>	<u>16,053</u>
Cash flows from investing activities:		
Cash paid in conjunction with acquisitions, net of cash acquired (Note 5)	(1,995)	(1,087)
Purchases of marketable securities	(29,031)	(11,932)
Maturities of marketable securities	48,446	21,889
Purchases of property and equipment	(2,628)	(423)
Net cash provided by investing activities	<u>14,792</u>	<u>8,447</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(231)	(967)
Cash proceeds from long-term debt	1,263	—
Payments on capital lease obligations	(493)	—
Exercise of stock options	2,461	2,019
Excess tax benefit from stock transactions	329	—
Issuance of treasury shares for employee stock purchase plan	690	1,497
Net cash provided by financing activities	<u>4,019</u>	<u>2,549</u>
Effect of exchange rate changes on cash and cash equivalents	(146)	—
Increase in cash and cash equivalents	1,653	27,049
Cash and cash equivalents at the beginning of the period	210,154	187,744
Cash and cash equivalents at the end of the period	<u>\$ 211,807</u>	<u>\$ 214,793</u>

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

LAWSON SOFTWARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

Lawson Software, Inc. (the "Company") provides business application software, services and maintenance to customers primarily in the services sector, trade industries and manufacturing/distribution sectors specializing in a variety of specific markets within these sectors including healthcare, public services, retail, financial services, food and beverage, manufacturing and wholesale distribution. The Company's software includes a variety of applications to help automate and integrate critical business processes, aiding in collaboration among its clients and their partners, suppliers and employees. Through the Company's consulting services we primarily help our clients implement their Lawson applications and through our maintenance services we provide ongoing support and technical assistance to clients using our products.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its branches and majority-owned subsidiaries operating in the United States of America, Latin America and Canada (Americas); Europe, Middle East and Africa (EMEA) and Asia-Pacific (APAC). The Company's subsidiaries that are not majority-owned are accounted for under the equity method. The unaudited condensed consolidated financial statements included herein reflect all adjustments, in the opinion of management, necessary to fairly state the Company's consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates. The results of operations for the three month period ended August 31, 2006, are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire fiscal year ending May 31, 2007. The unaudited condensed consolidated financial statements and notes are presented as permitted by the requirements for Form 10-Q and do not contain certain information included in the Company's annual financial statements and notes. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The accompanying interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended May 31, 2006.

Reclassifications

The unaudited condensed consolidated financial statements for the prior fiscal year contain certain reclassifications to conform prior year's data to the current presentation. These reclassifications included a balance sheet reclassification of \$18.9 million of unbilled accounts receivable from the newly acquired Intenia International AB ("Intenia") to accounts receivable from prepaid and other assets, where Intenia had previously classified this balance, to conform to the current presentation of classifying unbilled accounts receivable in accounts receivable. Other less significant reclassifications which we are not quantifying consisted of a cash flow statement reclassification of restructuring and tax commitment from exercise of stock options from a separate disclosure to inclusion with accrued and other liabilities within cash provided by operating activities and a balance sheet reclassification of certain employee compensation liabilities to be included in the accrued compensation and benefits line item reclassified from other accrued liabilities. These reclassifications had no effect on previously reported net earnings or stockholders' equity.

Fiscal Year

Our fiscal year is from June 1 to May 31. Unless otherwise stated, references to the years 2007 and 2006 relate to the fiscal years ended May 31, 2007 and 2006, respectively. References to future years also relate to our fiscal year ended May 31.

2. STOCK-BASED COMPENSATION

On June 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)) which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) and superseded Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB Opinion No. 25). Under SFAS No. 123(R) stock-based employee compensation cost is recognized using the fair-value based method for all new awards granted after June 1, 2006 and unvested awards outstanding at June 1, 2006. Compensation costs for unvested stock options and awards that are outstanding at June 1, 2006, will be recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro-forma disclosures under SFAS No. 123(R), using a straight-line method. The Company elected the modified-prospective method of adopting SFAS No. 123(R), under which prior periods are not retroactively restated. Stock-based compensation expense for non-vested awards granted prior to the effective date is being recognized over the remaining service period using the fair-value based compensation cost estimated for SFAS No. 123 pro forma disclosures. Total stock-based compensation expense included in the Company's Condensed Consolidated Statements of Operations for the three months ended August 31, 2006, was \$2.1 million, or \$1.4 million net of tax, none of which is capitalized. This had an impact of \$.01 on the Company's earnings per share for the three months ended August 31, 2006. During the three months ended August 31, 2005, prior to the adoption of SFAS No. 123(R), the Company recognized \$6.5 million, or \$4.0 million of after tax stock-based employee compensation expense, that included a \$6.3 million, or \$3.8 million non-cash after tax charge resulting from the negotiated separation agreement with its former president and chief executive officer.

Stock Options

Stock options awards are granted at exercise prices equal to the closing price of the Company's common stock on the prior business date. The majority of the Company's stock option awards are non-qualified stock options which vest over a four-year to six-year period subject to acceleration under certain events and expire seven to ten years after the date of the grant. The Company currently grants stock options under the Lawson Software, Inc. 2001 Stock Incentive Plan (2001 Plan) and the Lawson Software, Inc. 1996 Stock Incentive Plan (1996 Plan). As of August 31, 2006, there were approximately 31.8 million shares available for future grants under the aforementioned plans.

Amendments to Stock Option Agreements

Effective on June 1, 2005, the Company amended the stock options held by each of its non-employee directors to: (1) fully vest and eliminate the Company's call right to purchase shares issued after exercise and (2) allow those options to be exercised until the earlier of two years after resignation as a director or ten years after the date of grant. This change resulted in recognizing \$0.1 million in compensation expense for the three months ended August 31, 2005 due to the fact that these options were "in-the-money" at the time they were modified. There was no impact to the Company's income statement for the three months ended August 31, 2006 as a result of this amendment. The Company recognized \$0.1 million, net of tax, in the pro forma calculation for the three months ended August 31, 2005.

Effective on June 1, 2005, the Company amended the stock options compensation that had an exercise price per share greater than or equal to \$5.95 (the closing price on Nasdaq on June 1, 2005) and that are held by each officer who is currently subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, to allow that officer to exercise the options that are unexercised and vested as of that officer's employment termination date until the earlier of two years after termination employment or ten years after the date of grant. Stock options previously granted to any Section 16 reporting person with an exercise price per share less than \$5.95 were not amended. There was no impact to the Company's income statement for the three months ended August 31, 2005 or 2006, as a result of this amendment. While this required no charge in the Company's income statement under APB No. 25, \$0.2 million, net of tax, was recognized in the pro forma calculation for the three months ended August 31, 2005.

Effective June 2, 2005, as part of the separation agreement with the former CEO, the Company amended the stock options compensation such that the outstanding stock options held by the former CEO that had an exercise price greater than the closing price for shares of the Company's common stock on June 1, 2005, were amended to cease vesting after termination of full time employment and extend the exercise period to two years from the end of full time employment. This change resulted in recognizing \$6.3 million, or \$3.8 million net of tax, in compensation expense for the three months ended August 31, 2005. There was no impact to the Company's income statement for the three months ended August 31, 2006 as a result of this amendment. As these options were 100 percent vested, under the fair value based method, the Company recognized \$0.4 million, net of tax, relating to the incremental value on the modified options as compared to the options before modification in the pro forma calculation for the three months ended August 31, 2005.

Restricted Stock Awards

On June 2, 2005, the Company granted a restricted stock award of 100,000 shares of common stock to its then newly appointed president and chief executive officer. The shares, with a \$0.5 million market value at date of grant, vest in two 50,000 share increments on June 1, 2006 and 2007, subject to acceleration upon certain events. The market value of the restricted stock was recorded as unearned compensation, a component of stockholders' equity, and is being amortized over the respective vesting periods.

On June 1 and August 1, 2006, the Company granted restricted stock unit awards of 147,500 shares and 5,000 shares of common stock, respectively, to various executives. The shares, with a combined \$1.0 million market value at date of grant, cliff vest on July 1, 2009, and August 1, 2009, respectively, subject to acceleration upon certain events. The market value of the restricted stock units is being amortized over the respective vesting periods.

For the three months ended August 31, 2006 and 2005 amortization of the unearned compensation related to restricted stock and restricted stock units was \$0.1 million and \$0.1 million, respectively.

Valuation Assumptions

The Company uses the Black-Scholes option pricing model (Black-Scholes model) to determine the fair value of stock options as of the grant date. The fair value of stock options under the Black-Scholes model requires management to make assumptions regarding projected employee stock option exercise behaviors, risk-free interest rates, volatility of the Company's stock price and expected dividends.

The expense recognized for shares purchased under our ESPP is equal to the 15 percent discount the employee receives at the end of the calendar quarter. The fair value of restricted stock and restricted stock unit awards is based on the Company's closing stock price on the last trading day before the date of the grant.

The following table provides the weighted average fair value of options granted to employees and the related assumptions used in the Black-Scholes model:

	Three Months Ended	
	August 31,	
	2006	2005
Weighted average fair value of options granted (in thousands)	\$ 2,011	\$ 7,746
Weighted average per option fair value	\$ 3.90	\$ 3.06
Assumptions used:		
Expected life (years)(a)	4.25	5.00
Risk-free interest rate (b)	4.9 %	3.5 %
Volatility(c)	51.0 %	56.0 %
Dividend yield(d)	0.0 %	0.0 %
Forfeiture rate(e)	6.1 %	—

- (a) *Expected life:* In June 2005 the Company calculated expected life based on historical observations. In June 2006, the Company calculated expected life based on historical observations and expected time to post-vesting forfeiture and exercise. The change in expected life is the result of a change in the contractual life of new options granted during the first quarter of fiscal 2007.
- (b) *Risk-free interest rate:* The rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity that correlates to the expected life of the options, with the three month range of 4.90% - 4.98%.
- (c) *Volatility:* The Company is using a combination of historical and implied volatility (blended method) to calculate the volatility. Currently our historical volatility calculation is based on a four-year look back period (to the period up to and including our IPO). The Company will continue to increase the look back to a six-year period, which coincides with the expected life of our grants.
- (d) *Dividend yield:* The Company does not expect to issue dividends for the foreseeable future.
- (e) *Forfeiture rate:* The pre-vesting forfeiture rate is calculated based on historical actual forfeitures of options compared to grants. Prior to the adoption of SFAS No. 123(R), the Company accounted for forfeitures as they occurred.

Stock-Based Compensation Expense

SFAS No. 123(R) requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term and the number of options that will ultimately be forfeited before completing vesting requirements. Changes in the assumptions can materially affect the estimate of fair value of equity-based compensation and, consequently, the related expense recognized. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite vesting period in the Company's Condensed Consolidated Statements of Operations. Prior to adopting SFAS No. 123(R), the Company elected the option of disclosure only under SFAS No. 123. In its disclosures, the Company has historically used the Black-Scholes option pricing model to determine the fair value of its share based compensation arrangements. Upon the adoption of SFAS No. 123(R), the Company continued to utilize the Black-Scholes model and adopted the modified prospective method.

The amount of stock-based compensation expense recognized in the Company's Condensed Consolidated Statements of Operations for the three months ended August 31, 2006, included compensation expense for stock-based payment awards granted on or prior to June 1, 2006, but not yet vested as of that date. Prior to June 1, 2006, the Company accounted for these awards in accordance with the provisions of APB No. 25. Stock-based employee compensation cost was recognized using the fair-value based method for all new awards granted after June 1, 2006. Compensation costs for unvested stock options and awards that are outstanding at June 1, 2006 will be recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro-forma disclosures under SFAS No. 123. Because stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three months ended August 31, 2006, is based on awards ultimately expected to vest, the expense was reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grants and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under FAS 123, the Company accounted for forfeitures as they occurred.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from the exercise of stock options and settlement of restricted stock awards as operating cash inflows in the Condensed Consolidated Statements of Cash Flows in accordance with the provisions of the Emerging Issues Task Force (EITF) No. 00-15, *Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option*. SFAS No. 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options and stock awards to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. Although total cash flows under SFAS No. 123(R) remain unchanged from what would have been reported under prior accounting standards, net operating cash flows are reduced and net financing cash flows are increased due to the adoption of SFAS No. 123(R). This amount is shown as "Excess tax benefit from stock transactions" on the Condensed Consolidated Statements of Cash Flows.

The following table presents the statement of earnings classification of pre-tax stock-based compensation expense, for options and restricted stock awards, recognized for the three months ended August 31, 2006 and 2005 (in thousands):

	<u>Three Months Ended August 31, 2006</u>	<u>Three Months Ended August 31, 2005</u>
Cost of revenues	\$ 236	\$ 2
Research and development	176	6
Sales and marketing	411	11
General and administrative	1,261	6,481
Stock-based compensation expense before income taxes	<u>\$ 2,084</u>	<u>\$ 6,500</u>
Income tax benefit	(705)	(2,521)
Total stock-based compensation expense after income taxes	<u>\$ 1,379</u>	<u>\$ 3,979</u>

The following table illustrates the effect on net earnings and net earnings per share for the three months ended August 31, 2005, if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock-based employee compensation (in thousands, except per share data):

	Three Months Ended August 31, 2005
Net income	
As reported	\$ 4,177
Add: Stock-based employee compensation expense included in reported net income, net of taxes	3,979
Deduct: Total stock-based compensation expense determined under fair value based method for all rewards, net of tax	(2,235)
Pro forma net income	<u>\$ 5,921</u>
Net income per share:	
Basic:	
As reported	\$ 0.04
Pro forma	\$ 0.06
Diluted:	
As reported	\$ 0.04
Pro forma	\$ 0.06

Tax Impacts of Stock-Based Compensation

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3 *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards* (SFAS No. 123(R)-3). SFAS No. 123(R)-3 provides an alternative method of calculating the excess tax benefits available to absorb tax deficiencies recognized after the adoption of SFAS No. 123(R). The calculation of excess tax benefits reported as an operating cash outflow and a financing inflow in the Condensed Consolidated Statements of Cash Flows required by SFAS No. 123(R)-3 differs from that required by SFAS No. 123(R). The Company has until May 31, 2007 to make a one-time election to adopt the transition method described in FSP No. FAS 123(R)-3. The Company is currently evaluating FSP No. FAS 123(R)-3; however, the one-time election will not affect operating income or net income. During the interim period, the Company used the long-form method of calculating the excess tax benefits available to absorb tax deficiencies recognized after the adoption of SFAS No. 123(R). For the three months ended August 31, 2006, there were excess tax benefits from stock transactions of \$0.3 million, which are classified as an operating cash outflow and a financing cash inflow per the new disclosure requirements of FAS 123(R)-3. Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from the exercise of stock options and settlement of restricted stock awards as operating cash flows in the Condensed Consolidated Statements of Cash Flows. As such, for the three months ended August 31, 2005, there were excess tax benefits from stock transactions of \$0.2 million, which are classified as operating cash inflows.

Stock Options

The following table summarizes stock option activity during the three months ended August 31, 2006 (in thousands except share and per share data):

	Options Outstanding	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding, May 31, 2006	14,672	\$1.23 - \$14.00	\$ 4.96
Expired/Forfeited	(1,123)	\$2.25 - \$9.20	\$ 7.43
Granted at fair market value	515	\$6.70 - \$7.68	\$ 6.76
Exercised	(723)	\$2.25 - \$6.49	\$ 3.41
Outstanding, August 31, 2006	<u>13,341</u>	\$1.23 - \$14.00	\$ 4.91

The 515,000 options granted during the three months ended August 31, 2006 have a weighted average grant-date fair-value of \$3.90. See Note 14 Subsequent Event for discussion of stock options granted to the Company's new Chief Financial Officer.

A summary of stock options as of August 31, 2006, is as follows (in thousands except share and per share data):

Range of Exercise Prices	Number of Shares Outstanding	Weighted- Average Remaining Contractual Life (Yrs)	Weighted- Average Exercise Price	Number of Shares Vested	Weighted- Average Remaining Contractual Life (Yrs)	Weighted- Average Exercise Price
\$1.23 - \$1.87	124	0.99	\$ 1.34	124	\$ 0.99	\$ 1.34
\$2.25 - \$2.32	3,630	3.58	\$ 2.27	3,630	\$ 3.58	\$ 2.27
\$2.97	1,016	4.75	\$ 2.97	1,016	\$ 4.75	\$ 2.97
\$3.99 - \$7.19	6,523	7.61	\$ 5.90	3,075	\$ 6.73	\$ 5.64
\$7.20 - \$9.77	2,029	7.69	\$ 7.55	1,044	\$ 6.72	\$ 7.51
\$14.00	19	5.03	\$ 14.00	19	\$ 5.03	\$ 14.00
\$1.23 - \$14.00	<u>13,341</u>	6.24	\$ 4.91	<u>8,908</u>	\$ 5.13	\$ 4.14

The total intrinsic value of options exercised during the three months ended August 31, 2006, was \$2.2 million. The total intrinsic value of unexercised and in the money options at August 31, 2006, calculated as the closing stock price at the end of the fiscal quarter less the exercise price of in the money options, of exercisable options outstanding and non-vested options, was \$25.4 million and \$23.5 million, respectively. The Company issues new shares when stock option awards are exercised. Cash received from the exercise of stock options for the three months ended August 31, 2006, was \$2.5 million and the related tax benefits realized was \$0.5 million. Unrecognized compensation expense related to outstanding stock options as of August 31, 2006, was \$13.7 million and is expected to be recognized over a weighted average period of 3.24 years and will be adjusted for any future changes in estimated forfeitures.

Restricted Stock Awards

The following table summarizes restricted stock award activity during the three months ended August 31, 2006 (in thousands, except per share data):

	<u>Awards</u>	<u>Weighted Average Grant-Date Fair-Value</u>
Nonvested, May 31, 2006	100	\$ 5.25
Granted	153	\$ 6.74
Vested	(50)	\$ 5.25
Nonvested, August 31, 2006	<u>203</u>	\$ 6.37

Unrecognized compensation expense related to restricted stock awards as of August 31, 2006, was \$1.0 million, pre-tax, and is expected to be recognized over a weighted average period of 2.3 years and will be adjusted for any future changes in estimated forfeitures.

Employee Stock Purchase Plan

In February 2001, the stockholders of the Company approved the 2001 Employee Stock Purchase Plan (ESPP), which was effective as of the Company's initial public offering. The purchase plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended. Prior to April 2006, the Company's plan allowed eligible employees to purchase common stock at a price equal to 85 percent of the lower of the fair market value of the common stock at the beginning or end of the offering period, which commenced each January 1 and July 1. On April 1, the plan was amended to allow eligible employees to purchase common stock at a price equal to 85 percent of the fair market value of the common stock at the end of each quarter of the offering period. The plan will terminate when all of the shares reserved under the plan have been purchased or five years from the effective date unless the Board of Directors resolves to extend the purchase plan for one or more additional periods of five years each. In June 2006, the Board of Directors approved a five-year amendment to the plan subject to stockholder approval. There are 20.8 million shares of the Company's common stock reserved for issuance under the plan, of which 17.2 million shares were available for issuance as of August 31, 2006. There have been 3.6 million shares issued under this plan through August 31, 2006.

Prior to April 2006, ESPP expense was calculated using the Black Scholes method (similar to stock option grants) using a 6 month expected life, the same volatility rate assigned to the stock options granted in that quarter (56.0 percent for August 2005), a risk-free interest rate of 2.51 percent and a dividend rate of zero percent. With the plan amendment under FAS 123(R), ESPP expense will be calculated at the 15 percent discount rate.

3. PER SHARE DATA

Basic earnings per share is computed using the net income (loss) and the weighted average number of common shares outstanding. Diluted earnings per share reflect the weighted average number of common shares outstanding plus any potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of shares to be issued upon the exercise of stock options and warrants and release of restricted stock. The following table sets forth the computation of the basic and diluted net income per share (in thousands, except per share amounts).

	Three Months Ended	
	August 31,	
	2006	2005
Basic earnings per share computation:		
Net (loss) income	\$ (15,792)	\$ 4,177
Weighted average common shares- basic	185,845	101,151
Basic net income per share	\$ (0.08)	\$ 0.04
Diluted earnings per share computation:		
Net (loss) income	\$ (15,792)	\$ 4,177
Shares calculation:		
Weighted average common shares	185,845	101,151
Effect of dilutive stock options	—	4,127
Effect of restricted stock	—	99
Effect of dilutive warrants	—	86
Weighted average common shares - diluted	185,845	105,463
Diluted net (loss) income per share	\$ (0.08)	\$ 0.04

Potentially dilutive shares of common stock excluded from the diluted net (loss) income per share computations were 13.6 million and 7.3 million as of August 31, 2006 and 2005, respectively. Certain potentially dilutive shares of common stock were excluded from the diluted earnings per share computation because their exercise prices were greater than the average market price of the common shares during the period and were therefore not dilutive. Potential dilutive shares of common stock were excluded from periods with a net loss because they were anti-dilutive.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108)*. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors considered, is material. SAB 108 is effective for fiscal years ending on or after November 15, 2006, with early application encouraged. The Company does not believe that SAB 108 will have a material impact on our Consolidated Financial Statements.

On July 13, 2006, the FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition, measurement and disclosure of tax positions that a company has taken or expects to be taken on a tax return. Additionally, FIN48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company is currently evaluating whether the adoption of FIN 48 will have a material effect on its consolidated results of operations and financial condition.

5. BUSINESS COMBINATIONS

Intentia International AB

On April 25, 2006, Lawson acquired Intentia International AB. The Company believes that the combination provides opportunities to leverage sales channels and to sell expanded product lines across the combined business's customer base. Holders of shares and warrants in Intentia, representing 5,119,604 shares of series A, 160,593,504 shares of series B, and 23,000,000 warrants, corresponding to approximately 99.0 percent of the shares and approximately 99.2 percent of the votes in Intentia on a fully diluted basis accepted Lawson's offer to exchange their shares and warrants for newly issued shares of Lawson common stock (the "Exchange Offer"). All conditions for the completion of the Exchange Offer have been satisfied, whereby holders of shares and warrants in Intentia will receive VPC-registered Lawson common stock in exchange. The results of operations of Intentia are included in the statement of operations of the Company from the date of the acquisition.

The total purchase price was \$458.6 million, which consisted of \$443.9 million for the fair value of common stock issued in exchange for shares and warrants in Intentia, an estimated \$4.9 million for the cash purchase of the remaining common stock of Intentia that was not tendered, and \$9.9 million in cash for transaction costs. In allocating the purchase price based on estimated fair values, the Company recorded approximately \$397.9 million of goodwill, \$128.5 million of identifiable intangible assets and \$65.4 million of deferred revenue. The preliminary allocation of the purchase price allocation that is not yet finalized relates to the valuation of deferred revenues, intangible assets, selected accruals, restructuring costs, certain legal matters, favorable or unfavorable operating lease arrangements and deferred taxes. The Company anticipates that the purchase price will be final at the end of the third quarter of fiscal 2007.

Restructuring Activities. In conjunction with the acquisition the Company has approved a plan designed to eliminate employee redundancies in both Intentia as well as legacy Lawson. The plan for Intentia includes the reduction of approximately 125 employees in APAC and EMEA. As of May 31, 2006, the Company had a reserve of \$12.7 million of severance and related benefits recorded as a part of the purchase price. For the three months ended August 31, 2006, \$1.3 million of severance related to this reserve was paid and no adjustments were made to the reserve resulting in an ending balance at August 31, 2006, of \$11.4 million. The reduction includes employees who work in all functional areas of the Company. The Company expects actions to take place through February 2007. The plan also includes the reduction of space and termination of agreements for certain facilities. The Company expects actions to take place through the end of fiscal 2007. As of May 31, 2006, the Company had a reserve of \$16.8 million relating to lease exit costs recorded as a part of the purchase price. No amounts were paid against this reserve and no adjustments to this reserve were recorded as of the three months ended August 31, 2006. The Company anticipates that there may be adjustments to the purchase price for modifications to amounts initially estimated in the restructuring plans. The plan will be final by the end of the third quarter of this fiscal year.

Pro forma Financial Information. The unaudited financial information in the table below summarizes the combined results of operations of Lawson and Intentia, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented. Pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of each of the periods presented. The pro forma financial information presented includes the business combination accounting effect on historical revenues, any U.S. GAAP adjustments, amortization of acquired intangible assets, adjustments to interest expense and related tax effects. The pro forma financial information does not reflect the impact of purchase accounting on revenue as it relates to the recognition of deferred license revenue. Deferred license fee revenues for Intentia were completely eliminated as part of purchase accounting.

The following table summarizes the pro forma financial information (in thousands, except per share data):

	Three months ended August 31, 2005
Total revenues	\$ 205,778
Net income	\$ 9,409
Net income per share - basic	\$ 0.09
Net income per share - diluted	\$ 0.09

Competency Assessment Solutions

On July 20, 2006, the Company acquired all of the outstanding equity of Competency Assessment Solutions ("CAS") for \$2.0 million in cash. The acquisition was completed to augment the Company's human capital management solutions. The excess purchase price over the fair value of assets acquired was preliminarily allocated to amortizable

intangible assets including acquired technology and client lists. The Company anticipates that the purchase price allocation will be final in the second quarter of fiscal 2007. A contingent payment of a maximum of \$0.5 million may be owed based on the final determination of CAS's net worth. The financial results of CAS are included in the Company's Condensed Consolidated Statements of Operations from the date of acquisition. Pro forma information is not presented as it is not material to the Company's Condensed Consolidated Statements of Operations for the three months ended August 31, 2006.

6. TRADE ACCOUNTS RECEIVABLE

The components of trade accounts receivable at August 31, 2006 and May 31, 2006 were as follows (in thousands):

	As of August 31, 2006	As of May 31, 2006
Customer account receivables	\$ 140,535	\$ 146,891
Unbilled account receivables	32,466	32,990
Less: allowance for doubtful accounts	(21,175)	(19,948)
Net trade accounts receivable	<u>\$ 151,826</u>	<u>\$ 159,933</u>

Unbilled accounts receivable represents revenue recognized on contracts for which billings have not yet been presented to the customer because the amounts were earned but not contractually billable as of the balance sheet date.

7. DEFERRED REVENUE

The components of deferred revenue at August 31, 2006 and May 31, 2006 were as follows (in thousands):

	As of August 31, 2006	As of May 31, 2006
License	\$ 20,476	\$ 11,095
Maintenance	132,114	138,144
Consulting	7,608	7,485
Client deposits	293	322
Total deferred revenue and client deposits	160,491	157,046
Less current portion	(152,242)	(146,206)
Long-term portion of deferred revenue	<u>\$ 8,249</u>	<u>\$ 10,840</u>

8. COMPREHENSIVE (LOSS) INCOME

The following table summarizes the components of comprehensive (loss) income (in thousands):

	Three Months Ended August 31,	
	2006	2005
Net (loss) income	\$ (15,792)	\$ 4,177
Unrealized gain (loss) on available-for-sale investments, net of taxes of \$20 and \$(3) as of August 31, 2006 and 2005, respectively	30	(5)
Net foreign currency translation adjustment	(1,261)	70
Other comprehensive (loss) income	(1,231)	65
Comprehensive (loss) income	<u>\$ (17,023)</u>	<u>\$ 4,242</u>

9. RESTRUCTURING

Severance and Related Benefits (in thousands)	Total	Fiscal 2006	Fiscal 2005 Phase I	Fiscal 2005 Phase II
Balance, May 31, 2006	\$ 1,291	\$ 1,189	\$ 27	\$ 75
Provision for restructuring	3,408	3,408	—	—
Cash payments	(888)	(884)	(4)	—
Adjustments to provision	(16)	(16)	—	—
Balance, August 31, 2006	<u>\$ 3,795</u>	<u>\$ 3,697</u>	<u>\$ 23</u>	<u>\$ 75</u>

Fiscal 2006 Restructuring

On April 26, 2006, in conjunction with the acquisition of Intenia, the Company approved a plan designed to eliminate employee redundancies in both Intenia and legacy Lawson. The plan for legacy Lawson includes the reduction of approximately 60 employees in the United States and United Kingdom. As of May 31, 2006 the Company had a reserve of \$1.2 million for severance and related benefits recorded. For the three months ended August 31, 2006, \$0.8 million of severance and related benefits related to this reserve was paid and \$0.1 million of additions were made to the reserve resulting in an ending balance at August 31, 2006, of \$0.5 million. The reduction includes employees who work in operations, marketing, sales, research and development, maintenance and services. The Company expects actions to take place through February 2007. During the three months ended, August 31, 2006, the Company also recorded \$3.3 million in costs to exit leases entered into by legacy Lawson. The Company exited these leases as a part of the restructuring plan and paid \$0.1 million relating to this reserve resulting in an ending balance at August 31, 2006 of \$3.2 million. This plan includes the reduction of space and termination of agreements for certain facilities. The Company expects the actions to take place through the end of fiscal 2007. The plan for reduction of Intenia employees was included as part of the purchase price as of the acquisition date. See Note 5 *Business Combinations* for further discussion of this reserve.

Fiscal 2005 Restructuring

On September 28, 2004, the Company approved a plan designed to enhance the Company's operating effectiveness and profitability. Under the restructuring plan (Phase I), the Company streamlined structure, consolidated leadership and reduced long-term costs to realign projected expenses with anticipated revenue levels. The plan included the reduction of 107 employees in fiscal 2005 in the United States and the United Kingdom, which resulted in a charge for severance and related benefits of \$2.9 million. The reduction included employees who worked in operations, marketing, sales, research and development, maintenance and services. A cash payment of approximately four thousand dollars was made in the three months ended August 31, 2006.

On November 30, 2004, the Company also accrued for a restructuring plan (Phase II) that included initiatives to further reduce costs and realign projected expenses with anticipated revenue levels. It included a reduction of 68 employees in the United States and the United Kingdom, and because the Company was able to determine probability at the end of the second quarter of fiscal 2005, the restructuring resulted in a charge of approximately \$2.2 million, net of a reversal of \$0.3 million subsequent to the initial charge for severance and related benefits. The reduction included employees who worked in sales, research and development and services. All of the employee reductions and related cash payments were substantially completed as of February 28, 2005. Cash payments during the quarter ended August 31, 2006 for the Phase II plan were not material. The remaining cash payments are expected to be completed during the first half of fiscal 2007.

10. GOODWILL AND INTANGIBLE ASSETS

The changes, in the carrying amount of goodwill for the three months ended August 31, 2006, are as follows (in thousands):

Balance, May 31, 2006	\$ 454,550
Currency translation effect	(629)
Balance, August 31, 2006	<u>\$ 453,921</u>

Acquired intangible assets subject to amortization were as follows (in thousands):

	August 31, 2006			May 31, 2006			Estimated useful lives
	Gross Carrying Amounts	Accumulated Amortization	Net	Gross Carrying Amounts	Accumulated Amortization	Net	
Maintenance contracts	\$ 22,940	\$ 9,222	\$ 13,718	\$ 22,940	\$ 8,266	\$ 14,674	Term
Technology	87,518	14,075	73,443	85,348	11,452	73,896	3-10 years
Client lists	10,675	5,037	5,638	10,634	4,736	5,898	4-10 years
Customer relationships	47,403	1,487	45,916	47,393	372	47,021	12 years
Trademarks	5,055	722	4,333	5,063	181	4,882	2 years
Order backlog	5,607	1,869	3,738	5,627	469	5,158	1 year
Non-compete agreements	3,513	809	2,704	3,518	352	3,166	5 years
	<u>\$ 182,711</u>	<u>\$ 33,221</u>	<u>\$ 149,490</u>	<u>\$ 180,523</u>	<u>\$ 25,828</u>	<u>\$ 154,695</u>	

The Company amortizes its intangible assets using accelerated and straight-line methods, which approximates the proportion of future cash flows estimated to be generated in each period over the estimated useful life of the applicable asset. For the three months ended August 31, 2006 and 2005, amortization expense for intangible assets was \$7.4 million and \$2.2 million, respectively. Amortization expense is reported in cost of license fees, cost of services and amortization of acquired intangibles, in the accompanying Condensed Consolidated Statements of Operations.

The estimated future amortization expense for identified intangible assets is as follows (in thousands):

2007 (remaining 9 months)	\$ 21,816
2008	26,856
2009	20,439
2010	17,290
2011	14,741
Thereafter	48,348
	<u>\$ 149,490</u>

11. COMMITMENTS AND CONTINGENCIES

Commitments and Contingencies have not changed significantly from the Company's prior fiscal year end.

The Company is involved in various claims and legal actions in the normal course of business. Management is of the opinion that the outcome of such legal actions will not have a significant adverse effect on the Company's financial position, results of operations or cash flows. Notwithstanding management's belief, an unfavorable resolution of some or all of these matters could materially affect the Company's future results of operations and cash flows.

12. SEGMENT AND GEOGRAPHIC AREAS

The Company views its operations and manages its business as one reportable segment, the development and marketing of computer software and related services including consulting and maintenance and customer support. Factors used to identify the Company's single operating segment include the financial information available for evaluation by the

chief operating decision maker in making decisions about how to allocate resources and assess performance. In an effort to achieve greater operational scale and leverage costs with the acquisition of Intentia, the Company has and will continue to integrate the operations that support the Intentia M3 products and the legacy Lawson S3 products under one leadership structure for all verticals. As a result, the financial information utilized to evaluate the business operations combines M3 and S3 initiatives for all verticals for product sales, consulting services and maintenance and customer support. The Company markets its products and services through the Company's offices in the United States and its wholly-owned branches and subsidiaries operating in the Americas, EMEA and APAC. The following tables present revenues and long-lived assets summarized by geographic region (in thousands):

Revenues

Three months ended August 31, 2006	Geographical Region			
	Americas	APAC	EMEA	Total
License fees	\$ 11,835	\$ 235	\$ 4,698	\$ 16,768
Services:				
Maintenance	48,992	1,578	19,014	69,584
Consulting	33,658	4,199	37,628	75,485
Total services	82,650	5,777	56,642	145,069
Total revenues	\$ 94,485	\$ 6,012	\$ 61,340	\$ 161,837

Revenues

Three months ended August 31, 2005	Geographical Region			
	Americas	APAC	EMEA	Total
License fees	\$ 18,528	\$ —	\$ 76	\$ 18,604
Services:				
Maintenance	42,494	—	1,119	43,613
Consulting	25,047	—	650	25,697
Total services	67,541	—	1,769	69,310
Total revenues	\$ 86,069	\$ —	\$ 1,845	\$ 87,914

Total revenues for the U.S. were \$92.8 million and \$84.6 million for the quarters ended August 31, 2006 and 2005, respectively, and Sweden had \$17.7 million in revenues for the three months ended August 31, 2006. Besides the U.S. and Sweden, no other countries reported revenues exceeding 10 percent of consolidated revenues.

Long-lived assets	Geographical Region			
	Americas	APAC	EMEA	Total
As of August 31, 2006	\$ 81,392	\$ 77,730	\$ 471,994	\$ 631,116
As of May 31, 2006	\$ 80,880	\$ 77,087	\$ 477,467	\$ 635,434

Long-lived assets consist of property and equipment and goodwill and other intangible assets.

U.S. long-lived assets were \$80.3 million and \$71.1 million as of August 31, 2006 and May 31, 2006, respectively, and the Sweden long-lived assets were \$211.6 million as of August 31, 2006. Besides the U.S. and Sweden, no other countries reported long-lived assets exceeding 10 percent of consolidated long-lived assets.

13. INCOME TAXES

The quarterly tax expense is calculated using an estimated annual tax rate for the period as adjusted based upon valuation allowance assessment requirements. At August 31, 2006, the Company's forecasted annual global effective tax rate was 51.2 percent. This relatively high rate is due to the number of jurisdictions the Company projected a loss for the year for which no tax benefit is expected. No tax benefit is expected due to the requirement to establish a valuation allowance against current year losses. In deriving the tax rate to be applied to quarterly pre-tax book income, the Company has calculated a separate estimated tax rate of 41.2 percent. This rate was computed by dividing the projected annual provision by the total consolidated pre-tax annual projected book income only for those jurisdictions for which a provision is expected. This separate estimated annual tax rate was applied against the current period pre-tax book income for those same jurisdictions, to calculate the quarterly tax expense.

Income tax expense was \$2.5 million for the three months ended August 31, 2006, as compared to income tax expense of \$0.2 million for the three months ended August 31, 2005. For the three months ended August 31, 2006, the calculation of the effective tax rate is not meaningful due to the Company recording a tax expense on a quarterly net loss.

This tax expense is due to the relative mix of income and losses in jurisdictions where no benefit is expected to be realized and those for which the benefit of losses are expected to be realized as well as those jurisdictions for which there is income and related income tax expense. The effective tax rate for the three months ended August 31, 2005 was 3.8 percent, which reflected the impact of the Company's release of \$1.6 million of tax reserves

The Company reviews its annual tax rate on a quarterly basis and makes any necessary changes. The estimated annual tax rate may fluctuate due to changes in forecasted annual operating income; changes to the valuation allowance for net deferred tax assets; changes to actual or forecasted permanent book to tax differences; impacts from future tax settlements with state, federal or foreign tax authorities; or impacts from enacted tax law changes.

The Company identifies items which are unusual and non-recurring in nature, and treats these as discrete events. The tax effect of discrete items is booked entirely in the quarter in which the discrete event occurs.

14. SUBSEQUENT EVENT

On October 5, 2006 Robert A. Schriesheim joined the Company as Executive Vice President and will assume the role of Chief Financial Officer and Principal Financial Officer on October 11, 2006. Mr. Schriesheim, who is currently a director of the Company, will remain on the Board of Directors, but has resigned from the Audit Committee effective October 3, 2006. The Company has granted Mr. Schriesheim a non-qualified option to purchase 1.0 million shares of common stock at an exercise price of \$7.53 per share, which was the closing price on October 4, 2006.

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

Forward-Looking Statements

In addition to historical information, this Form 10-Q contains forward-looking statements. These forward-looking statements are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among others, statements about our future performance, the continuation of historical trends, the sufficiency of our sources of capital for future needs, the effects of acquisitions and the expected impact of recently issued accounting pronouncements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended May 31, 2006. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in this report on Form 10-Q and in other documents the Company files from time to time with the Securities and Exchange Commission.

Business Overview

Lawson Software, Inc. (the "Company") provides business application software, services and maintenance to customers primarily in the services sector, trade industries and manufacturing/distribution sectors. We operate as one business segment focused on broad sectors. We specialize in specific markets including healthcare, public services, retail, financial services, food and beverage, manufacturing and wholesale distribution. In the manufacturing sector we serve both process manufacturing and discrete manufacturing. In the service sector we serve both asset-intensive and labor-intensive services. Our software includes enterprise financial management, human capital management, business intelligence, asset management, enterprise performance management, supply chain management, service management, manufacturing operations, business project management and industry-tailored applications. Our applications help automate and integrate critical business processes, which enables our clients to collaborate with their partners, suppliers and employees. Our consulting services primarily help our clients implement their Lawson applications. Our support services provide ongoing maintenance and assistance to our clients.

We sell two lines of enterprise software solutions referred to as S3 and M3 consisting of licenses sold for our software products as well as maintenances and consulting services associated with those products. S3 solutions consist of applications of legacy Lawson specifically designed for services industries. M3 solutions consist of applications of Intenia geared for manufacturing, distribution and trade businesses who face resource constraints and whose processes are often complex and industry-specific.

Acquisition of Intenia International AB

On April 25, 2006, we completed the acquisition of Intenia International AB ("Intenia"). We believe that the combination provides opportunities to leverage sales channels and cross sell expanded product lines across the combined business's entire customer base. Holders of shares and warrants in Intenia, representing 5,119,604 shares of series A, 160,593,504 shares of series B, and 23,000,000 warrants, corresponding to approximately 99.0 percent of the shares and

approximately 99.2 percent of the votes in Intentia on a fully diluted basis accepted Lawson's offer to exchange their shares and warrants for newly issued shares of Lawson common stock (the "Exchange Offer"). We also completed a reorganization merger in connection with the combination. See Note 5 *Business Combination* of the Notes to the Condensed Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our audited Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods, and related disclosures of contingent assets and liabilities. The most significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2006. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to bad debt, intangible assets and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

We believe the critical accounting policies listed below reflect our more significant judgments, estimates and assumptions used in the preparation of our consolidated financial statements.

Revenue Recognition. Revenue recognition rules for software businesses are very complex. We follow specific and detailed guidelines in determining the proper amount of revenue to be recorded; however, certain judgments affect the application of our revenue recognition policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter.

The significant judgments for revenue recognition typically involve whether collectibility can be considered probable and whether fees are fixed or determinable. In addition, our transactions often consist of multiple element arrangements, which typically include license fees, maintenance and support fees and consulting service fees. These multiple element arrangements must be analyzed to determine the relative fair value of each element, the amount of revenue to be recognized upon shipment, if any, and the period and conditions under which deferred revenue should be recognized.

We recognize revenue in accordance with the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended, and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, as well as Technical Practice Aids issued from time to time by the AICPA, and in accordance with the Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*. We license software under non-cancelable license agreements and provide related consulting services, including training, and implementation services, as well as ongoing customer support and maintenance.

When our consulting, training and implementation services are not considered essential to the functionality of our software products, are sold separately and also are available from a number of third-party service providers our revenues from these services are generally recorded separately from license fees and recognized as the services are performed. Software arrangements which include certain fixed-fee service components are usually recognized as the services are performed while corresponding costs to provide these services are expensed as incurred. Software arrangements including services that are essential to the functionality of our software products are recognized in accordance with SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, using contract accounting and the percentage-of-completion methodology based on labor hours input. The amounts of revenue and related expenses reported in the consolidated financial statements may vary, due to the amount of judgment required to address significant assumptions, risks and uncertainties in applying the application of the percentage-of-completion methodology. Our specific revenue recognition policies are as follows:

- **Software License Fees**—License fee revenues from end-users are recognized when the software product has been shipped, provided a non-cancelable license agreement has been signed, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable and collection of the related receivable is considered probable. Provided the above criteria are met, license fee revenues from resellers are recognized when there is a sell-through by a reseller to an end-user. A sell-through is determined when we receive an order form from a reseller for a specific end-user

sale. We do not generally offer rights of return, acceptance clauses or price protection to our customers. In situations where software license contracts include rights of return or acceptance clauses, revenue is deferred until the clause expires. Typically, our software license fees are due within a 12-month period from the date of shipment. If the fee due from the customer is not fixed or determinable, including payment terms greater than twelve months from shipment, revenue is recognized as payments become due and all other conditions for revenue recognition have been satisfied. In software arrangements that include rights to multiple delivered elements such as software products or specified upgrades and undelivered elements such as support or services, we allocate the total arrangement fee according to the fair value of each element using vendor-specific objective evidence. Vendor-specific objective evidence of fair value is determined using the price charged when that element is sold separately. In software arrangements in which we have fair value of all undelivered elements but not of a delivered element, we use the residual method to record revenue. 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 element and is recognized as revenue. In software arrangements in which we do not have vendor-specific objective evidence of fair value of all undelivered elements, revenue is deferred until fair value is determined or all elements for which we do not have vendor-specific objective evidence of fair value, have been delivered.

- **Maintenance and Support**—Revenues from customer maintenance and support contracts are deferred and recognized ratably over the term of the agreements. Revenues for maintenance and support that are bundled with license fees are deferred based on the vendor specific objective evidence of fair value of the bundled maintenance and support and recognized over the term of the agreement. Vendor specific objective evidence of fair value is based on the renewal rate for continued maintenance and support arrangements.
- **Consulting Services**—Revenues from consulting services (including training and implementation services) are recognized as services are provided to customers. Revenues for consulting services that are bundled with license fees are deferred based on the vendor-specific objective evidence of fair value of the bundled services and recognized when the services are performed. Vendor-specific objective evidence of fair value is based on the price charged when training and consulting services are sold separately.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts at an amount we estimate to be sufficient to provide adequate protection against losses resulting from extending credit to our customers. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including historical bad debt experience, the general economic environment, the need for specific customer reserves and the aging of our receivables. This provision is included in operating expenses as a general and administrative expense. A considerable amount of judgment is required in assessing these factors. If the factors utilized in determining the allowance do not reflect future performance, then a change in the allowance for doubtful accounts would be necessary in the period such determination has been made affecting future results of operations.

Sales Returns and Allowances. Although we do not provide a contractual right of return, in the course of arriving at practical business solutions to various warranty and other claims, we have allowed sales returns and allowances. We record a provision for estimated sales returns and allowances on licenses in the same period the related revenues are recorded or when current information indicates additional amounts are required. These estimates are based on historical experience determined by analysis of specific return activity and other known factors. If the historical data we utilize does not reflect future performance, then a change in the allowances would be necessary in the period such determination has been made affecting future results of operations.

Valuation of Long-Lived and Intangible Assets and Goodwill. We review identifiable intangible and other long-lived assets for impairment in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to a significant decrease in the market value of the business or asset acquired, a significant adverse change in the extent or manner in which the business or asset acquired is

used or a significant adverse change in the business climate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the long-lived asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. To the extent the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset; the impairment is measured using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

If events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable, in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*, the first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. We operate as one reporting unit and therefore compare our book value to market value. Market value is determined utilizing our market capitalization plus a control premium. If our market value exceeds our book value, goodwill is considered not impaired, thus the second step of the impairment test is not necessary. If our book value exceeds our market value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of the goodwill with the book value of the goodwill. If the carrying value of the goodwill exceeds the implied fair value of the goodwill, an impairment loss would be recognized in an amount equal to the excess. Any loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill is the new accounting basis. A subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed.

Income Taxes. The provision for income taxes consists of provisions for federal, state, and foreign income taxes. The Company operates in an international environment with significant operations in various locations outside of the United States. Accordingly, the consolidated income tax rate is a composite rate reflecting the earnings in various locations and the applicable rates.

Significant judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Our judgments, assumptions, and estimates relative to the provision for income tax take into account current tax laws, our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Although we believe that our estimates are reasonable, the final tax outcome of matters could be different from that which is reflected in our historical income tax provision and accruals. Such differences could have a material effect on the amounts provided in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations.

In conjunction with preparing the global tax provision, we must assess temporary differences resulting from the different treatment of specific items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our Condensed Consolidated Balance Sheets. As part of this process, we must also assess the likelihood that deferred tax assets will be realized from future taxable income and, based on this assessment establish a valuation allowance, if required. Our determination of our valuation allowance is based upon a number of assumptions, judgments, and estimates, including historical operating results, forecasted earnings, future taxable income, and the relative proportions of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. To the extent we establish a valuation allowance or change the valuation allowance in a period, except as discussed below for pre-acquisition deferred tax assets that had a pre-acquisition valuation allowance, we reflect the change with a corresponding increase or decrease to our tax provision in our Condensed Consolidated Statements of Operations.

Under the provisions of SFAS No. 109, *Accounting for Income Taxes*, and related interpretations, future period reductions to the valuation allowance related to Intenia's deferred tax assets that existed as of the date of the acquisition of Intenia are first credited against goodwill, then to the other identifiable assets existing at the date of acquisition, and then, once these assets have been reduced to zero, credited to the income tax provision. A provision benefit will not be realized for amounts credited against goodwill and other identifiable assets.

Contingencies. The Company is subject to the possibility of various loss contingencies in the normal course of business. The Company accrues for loss contingencies when a loss is estimatable and probable.

Equity-Based Compensation. Effective June 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)) which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) and superseded Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB Opinion No. 25). Under SFAS No. 123(R), stock-based employee compensation cost is recognized using the fair-value based method for all new awards granted after June 1, 2006 and unvested awards outstanding at June 1, 2006. Compensation costs for unvested stock options and awards that are outstanding at June 1, 2006, will be recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro-forma disclosures under SFAS No. 123, using a straight-line method. The Company elected the modified-prospective method of adopting SFAS No. 123(R), under which prior periods are not retroactively restated. Stock-based compensation expense for non-vested awards granted prior to the effective date is being recognized over the remaining service period using the fair-value based compensation cost estimated for SFAS No. 123 pro forma disclosures.

SFAS No. 123(R) requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of equity-based compensation and, consequently, the related expense recognized. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, which involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. See Note 2 to the Condensed Consolidated Financial Statements for a further discussion of stock-based compensation.

Results of Operations

The following table sets forth certain line items in our Condensed Consolidated Statements of Operations as a percentage of total revenues and the period over period growth for the periods indicated:

	Percent of Total Revenue Three Months Ended August 31,		Percent of Dollar Change Quarter over Quarter
	2006	2005	
Revenues:			
License fees	10.4%	21.2%	(9.9)%
Maintenance	43.0	49.6	59.5
Consulting	46.6	29.2	193.8
Total revenues	100.0	100.0	84.1
Cost of revenues:			
Cost of license fees	3.1	2.8	108.3
Cost of maintenance	9.1	8.3	99.9
Cost of consulting	43.1	28.9	174.8
Total cost of revenues	55.3	40.0	154.6
Gross margin	44.7	60.0	37.1
Operating expenses:			
Research and development	12.5	16.5	40.2
Sales and marketing	22.8	21.6	94.5
General and administrative	16.1	19.2	54.0
Restructuring	2.1	0.0	*NM
Amortization of acquired intangibles	1.5	0.4	*NM
Total operating expenses	55.0	57.7	75.4
Operating (loss) income	(10.3)	2.3	*NM
Other income	2.1	2.6	46.4
(Loss) income before income taxes	(8.2)	4.9	*NM
Provision for income taxes	1.6	0.1	*NM
Net (loss) income	(9.8)%	4.8%	*NM

*Not Meaningful

Overview

We are in the early stages of our business integration following the April 2006 acquisition of Intenia, and as a result, we have not yet begun to see the full impact of the anticipated results and benefits of the acquisition. Total revenue for the first quarter of fiscal 2007 was \$161.8 million, an increase of \$73.9 million or 84.1 percent from the first quarter of fiscal 2006. The increase primarily resulted from the sales and consulting activities associated with our M3 solutions contributed by the newly acquired Intenia. Our revenue for S3 solutions from legacy Lawson increased \$4.4 million or 5.0 percent from the

prior year, driven by increased maintenance and consulting revenue that was offset by a decline in license fee revenue. Maintenance and consulting revenues for Intenia continued to be adversely impacted by the fair value purchase accounting adjustment as a result of the acquisition which reduced the deferred revenue balances acquired in the fourth quarter of fiscal 2006. As a result, \$4.6 million in maintenance and service revenue was not recognized in the first quarter of fiscal 2007. Deferred license fee revenue for Intenia were completely eliminated as part of purchase accounting.

Although there has been some activity of cross-selling of S3 and M3 solutions with existing as well as new customers in each market, we have not begun to see the impact of the cross-selling that is an anticipated benefit of the acquisition. Thus, our first quarter fiscal 2007 S3 revenue continued to represent activity of legacy Lawson while our M3 revenue represents activity of Intenia. Sales of our M3 solutions represent approximately 43 percent of total revenues for the first quarter of fiscal 2007. We have focused on strengthening our sales forces as a part of the integration of the two companies to positively impact future revenue. We anticipate the impact of the acquisition and cross-selling of products to create a broader product portfolio and expanded customer base across geographical regions in future periods.

Net (Loss) Income We reported a net loss of \$15.8 million for the first quarter of fiscal 2007 compared with net income of \$4.2 million for the first quarter of fiscal 2006. The net loss was primarily attributable to the addition of the results of Intenia for the quarter. Lower license revenue caused by lower contracting activity and an increase in revenue deferrals for legacy Lawson also contributed to the loss.

In our discussion of changes in results of operations from the first quarter of fiscal 2007 compared to fiscal 2006, we provide information regarding the results of Intenia as a component of the consolidated results and also discuss results of legacy Lawson separately where applicable. Although we operate as one business segment we believe this is meaningful information at this time because the acquisition is recent and we are in the early stage of integration. As integration progresses we will not be able to easily identify the results from each historical company separately.

Three Months Ended August 31, 2006 Compared To Three Months Ended August 31, 2005

(in thousands)	Three Months Ended August 31,		Fiscal year change 2007 vs. 2006	
	2006	2005	Dollars	Percent
Revenues:				
License fees	\$ 16,768	\$ 18,604	\$ (1,836)	(9.9)%
Maintenance	69,584	43,613	25,971	59.5%
Consulting	75,485	25,697	49,788	193.8%
Total revenues	<u>\$ 161,837</u>	<u>\$ 87,914</u>	<u>\$ 73,923</u>	84.1%

Total Revenues. We generate revenues from licensing software, providing maintenance for previously licensed products and providing consulting services. We generally utilize written contracts as the means to establish the terms and conditions by which our products, maintenance and consulting services are sold to our customers. Because our maintenance and consulting services are primarily attributable to our licensed products, growth in our maintenance and consulting services is directly tied to the success of our license contracting activity.

Total revenues for the first quarter of fiscal 2007 increased 84.1 percent from the first quarter of the prior year of which 79.0 percent was attributable to the addition of \$69.4 million of revenue of M3 solutions from the newly acquired Intenia. Also contributing was a 5.0 percent increase from the prior year in revenue from our S3 solutions. This increase resulted from increased maintenance and service revenue offset by a decline in license fee revenue.

License Fees. Our license fees primarily consist of fees resulting from products licensed to customers on a perpetual basis. Product license fees result from a customer's licensing of a given software product for the first time or with a customer's purchase of additional users for previously licensed products.

License fee revenues decreased 9.9 percent for the first quarter of fiscal 2007 from the first quarter of fiscal 2006. Revenues from our S3 product line declined \$7.0 million, but were partially offset by an increase of \$5.2 million from the addition of the M3 product line. The decrease in S3 license fee revenue reflects a decline in license contracting of \$3.4 million and an increase in revenue deferrals of approximately \$3.4 million from the prior year. The decline in S3 license fee contracting activity was driven primarily by lengthening sales cycles. Total deferred license revenue increased by \$9.4 million from the prior year with the addition of Intenia and due to lower conversion rates for S3. The average deal size in the first quarter of fiscal 2007

was approximately 30 percent less than the average deal size for first quarter of the prior year although we had four deals greater than \$1 million including one from our M3 product line compared to three deals greater than \$1 million in the first quarter of fiscal 2006. We had 34 new deals in the first quarter of fiscal 2007 compared to 19 in the first quarter of fiscal 2006 of which 17 new deals were driven primarily by our M3 product line. License fee revenues as a percentage of total revenues for first quarter of fiscal 2007 and 2006 were 10.4 percent and 21.2 percent, respectively.

The following table shows revenue for the S3 and M3 products by geographic region for the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006 which included legacy Lawson only (in thousands).

License fee revenue

	Geographical Region			Total
	Americas	APAC	EMEA	
Three months ended August 31, 2006				
S3 Revenue	\$ 11,336	\$ —	\$ 243	\$ 11,579
M3 Revenue	499	235	4,455	5,189
Total revenues	<u>\$ 11,835</u>	<u>\$ 235</u>	<u>\$ 4,698</u>	<u>\$ 16,768</u>
Three months ended August 31, 2005				
S3 Revenue	\$ 18,528	\$ —	\$ 76	\$ 18,604
M3 Revenue	—	—	—	—
Total revenues	<u>\$ 18,528</u>	<u>\$ —</u>	<u>\$ 76</u>	<u>\$ 18,604</u>

Maintenance. Our maintenance revenues represent the ratable recognition of fees to enroll and renew licensed products in our maintenance program. This program entitles our customers to product enhancements, technical support services, and ongoing compatibility with third-party operating systems, databases and hardware. These fees are typically charged annually and are based on the license fees initially paid by the customer. Maintenance revenues can have fluctuations based on the timing of contracts, renewal rates, price increases and the number of new license contracts.

Maintenance revenue for the first quarter of fiscal 2007 increased 59.5 percent from the first quarter of the prior year of which 45.9 percent was attributable to M3 revenues resulting from the acquisition of Intenia. Excluding M3 maintenance revenues, maintenance revenue from S3 increased 13.6 percent from the prior year primarily resulting from annual price increases on maintenance renewals along with the addition of new customers totaling approximately \$6.0 million. Maintenance revenues for the M3 product line continued to be adversely impacted by the fair value purchase accounting adjustments as a result of the acquisition which reduced the deferred revenue balances acquired in the fourth quarter of fiscal 2006. This fair value purchase accounting adjustment had the effect of lowering the expected maintenance revenue from M3 maintenance services, by \$3.0 million in the first quarter of fiscal 2007. Maintenance revenue as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 was 43.0 percent and 49.6 percent, respectively.

Consulting. Our consulting revenues consist of services related to software installations, software implementations, customized development, and training services to customers who have licensed our products.

Consulting revenue for the first quarter of fiscal 2007 increased almost threefold by \$49.8 million from the first quarter of the prior year of which \$44.3 million related to the addition of consulting revenue from the addition of Intenia. Intenia has historically experienced higher consulting revenues when compared to Lawson's traditional consulting revenues. In the first quarter of fiscal 2007, the consulting revenue derived from Intenia's consultants was approximately 59 percent of total consulting revenues. Consulting revenue for Intenia for the first quarter of fiscal 2007 was lower than most typical quarters due to vacation periods mainly in the Europe region. Additionally, consulting revenue for Intenia continued to be adversely affected by the fair value purchase accounting adjustments as a result of the acquisition which reduced the deferred revenue balances acquired in the fourth quarter of fiscal 2006. This fair value purchase accounting adjustment had the effect of lowering the expected consulting revenue by \$1.5 million in the first quarter of fiscal 2007. Excluding Intenia, consulting revenue from legacy Lawson increased 21.5 percent from the prior year primarily resulting from increases in rates and volume totaling approximately \$3.1 million and an increase in revenue provided by third-parties of approximately \$1.1 million. Additionally, client billed travel increased \$0.9 million due to higher productivity and an increase in third-party billed travel. Consulting revenue as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 were 46.6 percent and 29.2 percent, respectively.

Cost of Revenues

(in thousands)	Three Months Ended August 31,		Fiscal year change 2007 vs. 2006	
	2006	2005	Dollars	Percent
Cost of revenues:				
Cost of license fees	\$ 5,042	\$ 2,421	\$ 2,621	108.3%
Cost of maintenance	14,688	7,348	7,340	99.9%
Cost of consulting	69,734	25,372	44,362	174.8%
Total cost of revenues	<u>\$ 89,464</u>	<u>\$ 35,141</u>	<u>\$ 54,323</u>	154.6%
Gross Profit:				
License fees	\$ 11,726	\$ 16,183	\$ (4,457)	(27.5)%
Maintenance	54,896	36,265	18,631	51.4%
Consulting	5,751	325	5,426	*NM
Total	<u>\$ 72,373</u>	<u>\$ 52,773</u>	<u>\$ 19,600</u>	37.1%
Gross Margin:				
License fees	69.9%	87.0%		
Maintenance	78.9%	83.2%		
Consulting	7.6%	1.3%		
Total	<u>44.7%</u>	<u>60.0%</u>		

* Not Meaningful

Cost of License Fees. Cost of license fees includes royalties to third parties, amortization of acquired software and software delivery expenses. Our software solutions may include embedded components of third-party vendors, for which a fee is paid to the vendor upon the sale of our products. In addition, we resell third-party products in conjunction with the license of our software solutions, which also results in a fee. The cost of license fees is higher when we resell products of third-party vendors. As a result, gross margins will vary depending on the proportion of third-party product sales in our revenue mix.

The increase in cost of license fees for the first quarter of fiscal 2007 from the first quarter of fiscal 2006 resulted primarily from the addition of \$2.0 million in amortization of technology resulting from the Intentia acquisition. Excluding the technology amortization, cost of license fees increased \$0.6 million from the first quarter of the prior year. The cost of license fees as a percentage of license fees increased from 13.0 percent in the first quarter of fiscal 2006 to 30.1 percent, in the first quarter of fiscal 2007. The decrease in license fee margins for the first quarter of fiscal 2007 from the first quarter of fiscal 2006 was due to a lower conversion rate of license contracting to license fee revenue as well as an increase in third party costs for embedded products as we ship IBM and other third party products. Cost of license fees as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 was 3.1 percent and 2.8 percent, respectively.

Cost of Maintenance. Cost of maintenance includes salaries, employee benefits and related travel and overhead costs for providing support services to clients, as well as intangible asset amortization on support contracts purchased in April 2004. Cost of maintenance does not include costs categorized as research and development, consistent with industry practice.

The increase in cost of maintenance for the first quarter of fiscal 2007 from the first quarter of fiscal 2006 primarily resulted from the addition of \$7.1 million of cost of maintenance from Intentia. Maintenance margin decreased from the prior year which is reflective of the addition of Intentia. Excluding Intentia, cost of maintenance increased slightly by 2.6 percent or \$0.2 million from the first quarter of the prior year. Cost of maintenance as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 was 9.1 percent and 8.4 percent, respectively.

Cost of Consulting. Cost of consulting includes salaries, employee benefits, third-party consulting costs and related travel and overhead costs for providing implementation, installation, training and education services to clients.

The increase in cost of consulting for the first quarter of fiscal 2007 from the first quarter of fiscal 2006 resulted from the addition of \$41.6 million of cost of consulting from Intentia, which included \$1.4 million of amortization of intangible assets acquired in the acquisition. Excluding Intentia, cost of consulting increased 11.0 percent or \$2.8 million. This increase was due primarily to increased employee costs of \$1.8 million from higher headcount as well as increased non-billable travel costs of \$0.8 million. Cost of consulting as a percentage of total revenues for

the first quarter of fiscal 2007 and 2006 was 43.1 percent and 28.9 percent, respectively. Consulting margins are higher with the addition of Intenia as they were higher than those generated by legacy Lawson in the prior year. Additionally, consulting margins have improved more in line with management's expectations for legacy Lawson in the first quarter of fiscal 2007. Utilization rates for services professionals during these periods have improved thus increasing margins.

Operating Expenses

(in thousands)	Three Months Ended August 31,		Fiscal year change 2007 vs. 2006	
	2006	2005	Dollars	Percent
Operating expenses:				
Research and development	\$ 20,325	\$ 14,500	\$ 5,825	40.2%
Sales and marketing	36,892	18,972	17,920	94.5%
General and administrative	25,990	16,872	9,118	54.0%
Restructuring	3,392	10	3,382	*NM
Amortization of acquired intangibles	2,389	374	2,015	*NM
Total operating expenses	<u>\$ 88,988</u>	<u>\$ 50,728</u>	<u>\$ 38,260</u>	<u>75.4%</u>

* Not meaningful

Total Operating Expenses. Total operating expenses as a percent of revenue for the first quarter of fiscal 2006 were 55.0 percent, down from 57.7 percent for the first quarter of fiscal 2007. We do anticipate a slight increase in operating expenses for the second quarter of fiscal 2007 as the impact of lower costs due to the vacation season will not re-occur. We plan to continue managing operating expenses aggressively throughout the year.

Research and Development. Research and development expenses consist primarily of salaries, employee benefits, related overhead costs, and consulting fees associated with product development, enhancements and upgrades provided to existing customers under maintenance plans and to new customers, testing, quality assurance and documentation.

Research and development expenses for the first quarter of fiscal 2007 increased 40.2 percent from the first quarter of fiscal 2006 due to the addition of research and development costs associated with the M3 solutions. Excluding the addition of \$7.5 million from the acquisition of Intenia, research and development decreased \$1.7 million, primarily due to lower resource costs related to salaries and incentives and contractor expenses. Research and development costs recorded for Intenia for the first quarter of fiscal 2007 are lower during the summer months due to vacations impacting personnel costs. Research and development expenses as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 were 12.5 percent and 16.5 percent, respectively.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and incentive compensation, employee benefits, travel and overhead costs related to our sales and marketing personnel, as well as trade show activities, advertising costs and other costs associated with marketing our company.

Sales and marketing expenses for the first quarter of fiscal 2007 increased 94.5 percent from the first quarter of fiscal 2006 of which 87.0 percent was attributable to the addition of Intenia. Excluding the addition of \$16.5 million of sales and marketing expenses from Intenia, sales and marketing expenses increased \$1.4 million due to increases in employee expenses related to increased salaries and higher headcount. Sales and marketing expenses for Intenia for the first quarter of fiscal 2007 are lower during the summer months due to vacations impacting personnel costs. Sales and marketing expenses as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 were 22.8 percent and 21.6 percent, respectively.

General and Administrative. General and administrative expenses consist primarily of salaries, employee benefits and related overhead costs for administrative employees, as well as legal and accounting expenses, consulting fees and bad debt expense.

General and administrative expenses for the first quarter of fiscal 2007 increased 54.0 percent from the first quarter of fiscal 2006. Excluding the addition of \$11.6 million from the acquisition of Intenia, general and administrative expenses decreased \$2.5 million due to a decrease of costs associated with the departure of the former president and CEO of \$7.3 million over the prior year. This decrease was offset by increased bad debt expense of \$1.3 million. General and administrative costs for Intenia for the first quarter of fiscal 2007 were higher than the normal trend due to one-time acquisition costs and higher contractor costs due to integration.

General and administrative expenses as a percentage of total revenues for the first quarter of fiscal 2007 and 2006 were 16.1 percent and 19.2 percent, respectively.

Restructuring. During the first quarter of fiscal 2007, we recorded \$3.4 million in restructuring charges compared with a restructuring charge of \$0.01 million during the first quarter of fiscal 2006.

On April 26, 2006, in conjunction with the acquisition we approved a plan designed to eliminate employee redundancies and restructure certain lease obligations in both Intentia as well as legacy Lawson.

The plan for legacy Lawson includes the reduction of approximately 60 employees in the United States and United Kingdom. As of May 31, 2006, we had a reserve of \$1.2 million for severance and related benefits recorded. For the three months ended August 31, 2006, \$0.8 million of severance and related benefits related to this reserve was paid and \$0.1 million of additions were made to the reserve resulting in an ending balance at August 31, 2006, of \$0.5 million. The reduction includes employees who work in all operations, marketing, sales, research and development, maintenance and services. We expect actions to take place through February 2007. During the three months ended, August 31, 2006 we also recorded \$3.3 million in costs to exit leases entered into by legacy Lawson as a part of the restructuring plan and paid \$0.1 million relating to this reserve resulting in an ending balance at August 31, 2006, of \$3.2 million. This plan includes the reduction of space and termination of agreements for certain facilities we expect actions to take place through the end of fiscal 2007.

The plan for Intentia includes the reduction of approximately 125 employees in Asia-Pacific (APAC) and Europe, Middle East and Africa (EMEA). As of May 31, 2006 we had a reserve of \$12.7 million of severance and related benefits recorded as a part of the purchase price. For the three months ended August 31, 2006, \$1.3 million of severance related to this reserve was paid and no adjustments were made to the reserve resulting in an ending balance at August 31, 2006, of \$11.4 million. The reduction includes employees who work in all functional areas. We expect actions to take place through February 2007. The plan also includes the reduction of space and termination of agreements for certain facilities. We expect actions to take place through the end of fiscal 2007. As of May 31, 2006, we had a reserve of \$16.8 million relating to lease exit costs recorded as a part of the purchase price. No amounts were paid against this reserve and no adjustments to this reserve were recorded as of the three months ended August 31, 2006. We anticipate that there could be adjustments to the reserves for Intentia recorded to the purchase price for modifications in the restructuring plans and adjustments in amounts estimated and that the plan will be final by the end of the third quarter of this fiscal year.

We expect to see cost savings as a result of the restructuring plans with a reduction in cost of revenue and operating expenses in future periods resulting from lower facility lease expense and reduced headcount. We expect to begin to see the effects of these cost savings by the end of fiscal 2007 and into fiscal 2008.

Amortization of Acquired Intangibles. Amortization of acquired intangibles for the first quarter of fiscal 2007 was \$2.4 million compared with the \$0.4 million for the first quarter of fiscal 2006. The increase over fiscal 2006 primarily results from the amortization of intangibles acquired in the Intentia acquisition.

Stock-Based Compensation

On June 1, 2006, we adopted the provisions of SFAS No. 123(R). Under SFAS No. 123(R), stock-based employee compensation cost is recognized using the fair-value based method for all new awards granted after June 1, 2006 and unvested awards outstanding at June 1, 2006. Compensation costs for unvested stock options and awards that are outstanding at June 1, 2006, will be recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro-forma disclosures under SFAS No. 123(R), using a straight-line method. We elected the modified-prospective method of adopting SFAS No. 123(R), under which prior periods are not retroactively restated. Stock-based compensation expense for non-vested awards granted prior to the effective date is being recognized over the remaining service period using the fair-value based compensation cost estimated for SFAS No. 123 pro forma disclosures. Total stock-based compensation expense included in the Company's Condensed Consolidated Statements of Operations for the three months ended August 31, 2006, was \$2.1 million, or \$1.4 million net of tax. This had an impact of \$.01 on our earnings per share for the three months ended August 31, 2006. During the three months ended August 31, 2005, we recognized stock-based employee compensation expense of \$6.5 million, or \$4.0 million net of tax. This included a \$6.3 million, or \$3.8 million net of tax, non-cash after tax charge resulting from the modification of options as part of a negotiated separation with the former president and chief executive officer. Other amendments to stock option agreements as of August 31, 2005 did not have a material impact to the results of operations as of the three months ended August 31, 2005. See Note 2 for further discussion of these amendments.

For purposes of calculating the fair value of options under SFAS No. 123(R), the weighted average fair value of options granted during the three months ended August 31, 2006 was \$3.90. For purposes of calculating the fair value of options under SFAS No. 123, the weighted average fair value of options granted during the three months ended August 31, 2005 was \$3.06. The weighted average fair values were based on the fair values on the dates of grant. The fair values for the options were calculated using the Black-Scholes option-pricing model utilizing the following assumptions:

	Three Months Ended August 31,	
	2006	2005
Weighted average per option fair value	\$ 3.90	\$ 3.06
Assumptions used for option grants:		
Expected life (years)	4.25	5.00
Risk-free interest rate	4.9%	3.5%
Volatility	51.0%	56.0%
Dividend yield	0.0%	0.0%
Forfeiture rate	6.1%	—

In June 2005 the expected life was based on the historical expected life that was established from historical observations. In June 2006, we calculated expected life based on historical observations and expected time to post-vesting forfeiture and exercise. The change in expected life is the result of a change in the contractual life of new options granted during the first quarter of fiscal 2007. The risk free interest rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity that correlates to the expected life of the options. We are using a combination of historical and implied volatility (blended method) to calculate the volatility. Currently our historical volatility calculation is based on a four-year look back period (to the period up to and including our IPO). We will continue to increase the look back to a six-year period, which coincides with the expected life of our grants. The pre-vesting forfeiture rate is calculated by looking at historical actual forfeitures of options compared to grants. Before implementing SFAS No. 123(R), forfeitures were accounted for as they occurred.

Unrecognized compensation expense related to outstanding stock options as of August 31, 2006, was \$13.7 million and is expected to be recognized over a weighted average period of 3.24 years and will be adjusted for any future changes in estimated forfeitures.

Other (Expense) Income, Net

Other (expense) income net, which is primarily composed of interest income earned from cash and marketable securities, increased to \$3.4 million for the first quarter of fiscal 2007 from \$2.3 million for the same quarter in fiscal 2006. The \$1.1 million increase in other income, net was due primarily to an increase in interest income reflecting a \$12.0 million increase in average invested balances and an increase in average yields, which were 5.4 percent and 3.2 percent for the first quarters of fiscal 2007 and 2006, respectively.

Provision for Income Taxes

Income tax expense was \$2.5 million for the three months ended August 31, 2006, as compared to income tax expense of \$0.2 million for the three months ended August 31, 2005. For the three months ended August 31, 2006, the calculation of the effective tax rate is not meaningful due to recording a tax expense on a quarterly net loss. This tax expense is due to the relative mix of income and losses in jurisdictions where no benefit is expected to be realized and those for which the benefit of losses are expected to be realized. The effective tax rate for the three months ended

August 31, 2005 was 3.8 percent, which reflected the impact of releasing of \$1.6 million of tax reserves. We review our reported effective tax rate on a quarterly basis and make any necessary changes.

Liquidity and Capital Resources

	<u>Three Months Ended</u>		<u>Change</u>
	<u>August 31,</u> <u>2006</u>	<u>August 31,</u> <u>2005</u>	
	(in thousands, except %)		
Cash Flow			
Net cash (used in) provided by operating activities	\$ (17,012)	\$ 16,053	(206.0)%
Net cash provided by investing activities	\$ 14,792	\$ 8,447	75.1%
Net cash provided by financing activities	\$ 4,019	\$ 2,549	57.7%

	<u>As of August 31,</u> <u>2006</u>	<u>As of May 31,</u> <u>2006</u>	<u>Change</u>
Capital Resources			
Working capital	\$ 161,741	\$ 168,201	(3.8)%
Cash and cash equivalents and marketable securities	\$ 289,000	\$ 306,581	(5.7)%

As of August 31, 2006, we had \$289.0 million in cash, cash equivalents and marketable securities and \$161.7 million in working capital. Our most significant source of operating cash flows is derived from license fees, maintenance fees and consulting services to our customers. Days sales outstanding, which is calculated on net receivables at period end divided by revenue for the quarter times 90 days in the quarter, was 84 and 50 as of August 31, 2006 and May 31, 2006, respectively. The increase is reflective of the impact of the addition of receivables acquired from the acquisition of Intenia for which there is no associated revenue in the current period. Our primary uses of cash from operating activities are for employee costs, third-party costs for licenses and services, and facilities.

We believe that cash flows from operations, together with our cash, cash equivalents and marketable securities, will be sufficient to meet our cash requirements for working capital, capital expenditures and investments for the foreseeable future. As part of our business strategy, we may acquire companies or products from time to time to enhance our product lines.

During the quarter ended February 28, 2006, we began a program to invoice annual support renewals in the Americas so that most customers will have a June 1 renewal date each year for software support. In the past, annual support renewal dates with customers were spread throughout the year, based on either the beginning of a quarter or the anniversary date of the initial license agreement with a customer. Under this new program, we will invoice customers for annual support during the 90-day period before each June 1, and expect payments around June 1. As a result, beginning in the first quarter of fiscal 2008, we anticipate our cash balance from annual support payments will increase when these invoices are paid, and then will decrease after each June 1 over the remainder of the year as we apply that cash towards the fulfillment of our support obligations. Revenue is not affected by this new program as revenue is recognized as the services are provided. Intenia's invoicing cycle has historically been throughout the year and the Company will be implementing a similar program to establish common renewal dates for support renewals. This is expected to begin during the third quarter of fiscal 2007 and will likely have January 1 renewal dates.

Cash flows from operating activities:

Net cash used in operating activities was \$17.0 million for the three months ended August 31, 2006, compared with \$16.1 million of net cash provided by operating activities for the three months ended August 31, 2005. Our net loss of \$15.8 million was offset in part by non-cash charges resulting in a \$2.5 million cash use of operations before working capital changes. Thus, working capital changes drove the overall reduction in cash from operations as described below. The reduction in cash from operations before working capital from \$13.9 million in 2006 to a use of \$2.5 million in 2007 was driven by operating results and increases in depreciation and amortization partially offset by lower stock-based compensation expense. Non-cash charges for the three months ended August 31, 2006 primarily include charges of \$9.7 million of depreciation and amortization, a \$2.0 million increase in the provision for doubtful accounts, and \$2.1 million of stock-based compensation expense. The net working capital changes of \$14.5 million increased the overall cash used to \$17.0 million.

The significant activity in cash flows from working capital changes for the three months ended August 31, 2006 are primarily related to a decrease of \$13.9 million in accrued and other liabilities and \$9.0 million in accounts payable and an increase of \$2.8 million in prepaid expenses and other assets. These were offset by a decrease of \$6.0 million in trade accounts receivable, an increase of \$4.3 million in deferred revenue and customer deposits and \$0.9 million in income taxes.

The increase in deferred revenue and customer deposits is primarily due to the switch to a June 1 common renewal date for maintenance. The decrease in accrued and other liabilities resulted from the pay down of certain accrued liabilities including variable compensation which existed at the date of acquisition and payment of integration related reserves as well as pay down of accounts payable.

In the three months ended August 31, 2005, cash provided by operating activities was \$16.1 million. Net income of \$4.2 million was increased by non-cash adjustments resulting in \$13.9 million of cash provided by operating activities before working capital charges. Non-cash adjustments primarily included a \$6.5 million stock compensation charge related to a negotiated separation agreement with the former president and chief executive officer and depreciation and amortization charges of \$3.7 million. The net working capital adjustments of \$2.1 million increased the overall cash provided of \$16.1 million.

The significant activity in cash flows from working capital adjustments for the three months ended August 31, 2005 included a decrease of \$8.4 million in prepaid expenses and other assets and a \$0.9 million decrease in cash from trade accounts receivable, which was partially offset by a \$4.5 million net decrease in accounts payable, accrued expenses and other liabilities, and a \$1.0 million decrease in deferred revenue and customer deposits. The \$8.4 million decrease in prepaid expenses and other assets was primarily due to the receipt of \$8.8 million in a federal tax refund including interest. The \$0.9 million increase in trade accounts receivable was primarily due to higher levels of services that were performed but not yet collectible under terms of the agreement.

Cash flows from investing activities:

Net cash provided by investing activities was \$14.8 million for the three months ended August 31, 2006, compared with \$8.4 million in cash provided by investing activities for the three months ended August 31, 2005. The increase in cash from investing activities for the three months ended August 31, 2006, primarily related to \$19.4 million of cash received from net maturities of marketable securities partially offset by purchase of property and equipment of \$2.6 million and payment of \$2.0 million for an acquisition.

Cash flows from financing activities:

Net cash provided from financing activities was \$4.0 million for the three months ended August 31, 2006, compared with \$2.5 million in cash provided by financing activities for the three months ended August 31, 2005. The financing activities for the three months ended August 31, 2006, primarily related to \$2.5 million in cash received from the exercise of stock options and \$0.7 million in cash received from the issuance of treasury share for the employee stock purchase plan.

Derivatives

We account for derivative instruments, consisting of foreign currency forward contracts, pursuant to Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS 133 requires that derivative instruments be recorded in the balance sheet as either an asset or liability measured at its fair value. We employ derivative financial instruments to offset recognized non-functional currency transaction exposures. Gains and losses resulting from changes in the fair value of our derivative portfolio are recorded in each accounting period. These gains and losses largely offset gains and losses from non-functional currency balance sheet exposures previously recognized. We do not use derivative instruments for trading purposes and do not employ hedge accounting. All outstanding foreign currency forward contracts are marked to market at the end of the period with unrealized gains and losses included in the Condensed Consolidated Statements of Operations. As of August 31, 2006, the net fair value of our derivatives was \$0.8 million, \$1.0 million is included in prepaid expenses and other assets and \$0.2 million is included in other accrued liabilities.

Credit Facilities

We have a short-term credit facility that was entered into by our newly acquired company (Intentia) on November 1, 2004. The credit facility consists of a guarantee line with Skandinaviska Enskilda Banken (SEB) in the amount of \$5.5 million (Swedish Kroner (SEK) 40 million). The credit facilities are secured by a pledge of shares of the subsidiaries of Lawson Software International AB and a floating charge on the assets of Intentia Consulting Sweden AB. As of August 31, 2006, \$0.5 million was outstanding under the guarantee line and \$5.0 million was available for use. Additionally, we have a bank overdraft line of \$0.7 million. As of August 31, 2006, there was no overdraft balance. We also have various other outstanding guarantees totaling \$0.3 million with various financial institutions.

Disclosures about Contractual Obligations and Commercial Commitments

There have been no material changes to the Company's contractual obligations and commercial commitments as disclosed in the Company's Annual Report on Form 10-K for the year ended May 31, 2006.

Off-Balance-Sheet Arrangements

We do not use off-balance-sheet arrangements with unconsolidated entities, related parties or other forms of off-balance-sheet arrangements such as research and development arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance-sheet risks from unconsolidated entities. As of August 31, 2006, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

We have entered into operating leases for most U.S. and international sales and support offices and certain equipment in the normal course of business. These arrangements are often referred to as a form of off-balance-sheet financing. As of August 31, 2006, we leased facilities and certain equipment under non-cancelable operating leases expiring between 2006 and 2017. Rent expense under operating leases for the three months ended August 31, 2006 and 2005 was \$9.4 million and \$3.6 million, respectively. The increase is primarily due to the acquisition of Intenia on April 25, 2006. There have been no material changes in contractual obligations from the amounts reported in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2006.

Foreign Currency

The Company's market risk includes the potential loss arising from adverse changes in foreign currency exchange rates. As of the quarter ended August 31, 2006, approximately 43 percent of our revenue was denominated in a foreign currency which is an increase from the prior year. This increase is primarily due to the acquisition of Intenia on April 25, 2006. Since Intenia's revenues are predominately denominated in foreign currencies, there is potential for a more significant market risk due to foreign currencies in future periods.

Recent Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108)*. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors considered, is material. SAB 108 is effective for fiscal years ending on or after November 15, 2006, our fiscal year ending May 31, 2007 with early application encouraged. We do not believe that SAB 108 will have a material impact on our Consolidated Financial Statements.

On July 13, 2006, the FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition, measurement and disclosure of tax positions that a company has taken or expects to be taken on a tax return. Additionally, FIN48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, our fiscal year beginning June 1, 2007 with early adoption permitted. We are currently evaluating whether the adoption of FIN 48 will have a material effect on its consolidated results of operations and financial condition.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in market risk for the Company in the period covered by this report. See the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2006, for a discussion of market risk for the Company.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Rules adopted by the SEC to implement the provisions of Section 302 of the Sarbanes-Oxley Act of 2002 require the Chief Executive Officer and the Chief Financial Officer of the Company, in connection with the Company's periodic reports filed with the SEC, to evaluate the Company's disclosure controls and procedures and to disclose their conclusions based on this evaluation.

Disclosure controls and procedures refer to the controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow for timely decisions regarding required disclosures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Senior Vice President, Global Controller (our interim acting Chief Financial Officer), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and the interim acting Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of August 31, 2006 because we identified a material weakness in our internal control over financial reporting relating to the lack of a sufficient number of qualified accounting personnel with the required proficiency to apply the Company's accounting policies in accordance with generally accepted accounting principles of the United States of America (U.S. GAAP). See further discussion of this material weakness identified as of August 31, 2006 within *Changes in Internal Control Over Financial Reporting* below.

Changes in Internal Control Over Financial Reporting

Management determined that a material weakness in our internal control over financial reporting exists as of August 31, 2006 relating to the lack of a sufficient number of qualified accounting personnel with the required proficiency to apply the Company's accounting policies in accordance with U.S. GAAP. In order to compensate for a lack of adequate finance and accounting staff at Intenia, management implemented transitional controls that utilized existing staff at the Company's corporate headquarters level based in St. Paul, Minnesota to perform the U.S. GAAP accounting requirements for Intenia. The transitional controls put in place in the first quarter of fiscal 2007 surrounding Intenia caused additional strain on our financial reporting function resulting in the operating effectiveness of the St. Paul, Minnesota finance and accounting personnel to become inadequate in the first quarter of fiscal 2007. As a result of this material weakness, the Company experienced accounting adjustments in order to comply with US GAAP related to its adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, during the first quarter of 2007, as well as in other areas. These accounting adjustments, when considered in light of other current internal control deficiencies and significant deficiencies results in management assessing that the Company's lack of qualified accounting and finance personnel represents a more than remote likelihood that a material misstatement could result in our interim condensed consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that the Company's inadequate finance and accounting personnel control deficiency constitutes a material weakness in our internal control over financial reporting as of August 31, 2006.

Plans for Remediation

Management intends to remediate the aforementioned material weakness in our internal control over financial reporting during fiscal 2007 and we will report on the status of our remediation efforts when the Company files its Form 10-Qs as of and for the periods ended November 30, 2006 and February 28, 2007, respectively, and its Form 10-K as of and for the year ending May 31, 2007. In particular, management intends to:

- Hire additional and permanent Finance department personnel with technical accounting expertise, as needed, to ensure that there are appropriate accounting personnel in place to properly account for transactions in accordance with U.S. GAAP reporting requirements.
- Provide additional education and training to the currently existing Intenia accounting personnel.
- Expand the legacy Lawson financial controls and processes to the legacy Intenia financial reporting organization, including changes to the record keeping processes that support U.S. GAAP reporting requirements.
- Reallocate responsibilities within the legacy Lawson St. Paul, Minnesota based Finance organization to properly address financial reporting and technical accounting matters encountered.

In light of the material weakness identified, in preparing our condensed consolidated financial statements as of and for the quarter ended August 31, 2006, we performed additional analyses and other post-closing procedures in an effort to ensure our condensed consolidated financial statements included in this Report as of and for the quarter ended August 31, 2006 have been prepared in accordance with U.S. GAAP. We will continue to perform the additional analyses and other post-closing procedures to mitigate the risk of potential material misstatements to the Company's financial statements in future quarters.

Management believes that the aforementioned remediation efforts will address the identified material weakness and will enable us to continue to strengthen our internal control over financial reporting in the future. The integration of Intenia is complex, however, and is made more challenging given that Intenia will be within the scope of our assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 in fiscal 2007.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be

effective can provide only reasonable assurance with respect to financial statement preparation and presentation. We intend to continue to improve the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting to the extent necessary to remediate deficiencies that currently exist as well as those that we may identify in the future.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, and from time to time may become, involved in litigation in the normal course of business concerning our products and services. While the outcome of these claims cannot be predicted with certainty, we do not believe that the outcome of any one of these legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our future results of operations or cash flows in a particular period.

ITEM 1A. RISK FACTORS

Factors That May Affect Our Future Results or the Market Price of Our Stock

We operate in a rapidly changing environment that involves numerous uncertainties and risks. Investors evaluating our company and its business should carefully consider the factors described below and all other information contained in this report on Form 10-Q. This section should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report on Form 10-Q. Any of the following factors could materially harm our business, operating results and financial condition. Additional factors and uncertainties not currently known to us or that we currently consider immaterial could also harm our business, operating results and financial condition. We may make forward-looking statements from time to time, both written and oral. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements based on circumstances or events which occur in the future. The actual results may differ materially from those projected in any such forward-looking statements due to a number of factors, including those set forth below and elsewhere in this report on Form 10-Q.

The enterprise software business is highly competitive.

We compete with Oracle Corporation, SAP AG, Microsoft Corporation and other larger software companies that have advantages over us due to their larger customer bases, greater name recognition, long operating and product development history, greater international presence and substantially greater financial, technical and marketing resources. If customers or prospects want to reduce the number of their software vendors, they may elect to purchase competing products from Oracle, SAP or Microsoft since those larger vendors offer a wider range of products. Furthermore, Oracle is capable of bundling its software with its database applications, which underlie a significant portion of our installed applications. We also compete with a variety of more specialized software and services vendors, including:

- single-industry software vendors;
- human resource management software vendors;
- financial management software vendors;
- manufacturing software vendors;
- merchandising software vendors;
- services automation software vendors;
- software integrators and outsourced services providers; and
- Internet (on demand) software vendors.

Some competitors are increasingly aggressive with their pricing, payment terms and/or issuance of contractual warranties, implementation terms or guarantees. Competitors may entice our customers to switch software vendors by offering those customers free products or services. We may be unable to continue to compete successfully with new and existing competitors without lowering prices or offering other favorable terms to customers. We expect competition to persist and intensify, which could negatively impact our operating results and market share.

Our revenues, and in particular our software license revenue, vary each quarter and are difficult to predict.

Revenues from license fees in any quarter depend substantially upon our licensing activity with new and existing customers, and our ability to recognize revenues in that quarter under our revenue recognition policies. If we do not continue to develop or acquire new products, licensing activity with existing customers may decline. Licensing activity for our products drives maintenance and services revenues because we sell maintenance and services for only our products. A decrease in licensing activity will typically lead to a decrease in services revenue in the same or subsequent quarters. If we do not have sufficient licensing activity with new customers each year, our maintenance revenue for the following year will decline because new customers are needed to offset the percentage of existing customers who scale back their businesses, reduce licenses and maintenance contracts, are acquired, or otherwise chose not to

renew annual maintenance. Our sales force and marketing team must continue to generate sales leads among existing customers and prospective customers. When we “qualify” a lead, that lead becomes part of our sales “pipeline.” If our pipeline does not continue to grow in our different markets and geographies, our revenues will eventually decline. The rate at which we convert our pipeline into actual sales can vary greatly from quarter to quarter for the following reasons:

- The period between initial customer contact and a purchase by a customer may vary and can more than one year. During the sales cycle, prospective customers may decide not to purchase or may scale down purchases because of competing offers, budgetary constraints or changes in the prospect’s management, strategy, business or industry.
- A substantial number of our existing and prospective customers make their purchase decision within the last few weeks or days of each quarter. A delay or deferral in a small number of large new software license transactions could cause our quarterly license revenue to fall significantly short of our predictions.
- Prospective customers may decline or defer the purchase of new products if we do not have sufficient customer references for those products.
- New products or technologies, software industry mergers and other software industry news may create uncertainty and cause customers and prospective customers to cancel, postpone or reduce capital spending for our products. We have observed this uncertainty with some of Intenia’s customers who are concerned that we might not continue to develop and support Intenia’s M3 products (despite our continued commitment to those products).

Because a substantial portion of our software license revenue contracts are completed in the latter part of a quarter, and our cost structure is largely fixed in the short term, unexpected revenue shortfalls and deferrals have a disproportionately negative impact on our profitability.

Economic, political and market conditions, can adversely affect our revenue growth and operating results.

Our revenue and profitability depend on the overall demand for enterprise software and related maintenance and services, particularly in the industries and geographies in which we sell our products and services. Demand for enterprise software and demand for our solutions are affected by general economic conditions, competition, product acceptance and technology lifecycles. Regional and global changes in the economy, governmental budget deficits and political instability in certain geographic areas have resulted in businesses, government agencies and educational institutions reducing their spending for technology projects generally and delaying or reconsidering potential purchases of our products and related services. The uncertainty posed by the long-term effects of the war in the Middle East, terrorist activities, potential pandemics, natural disasters and related uncertainties and risks and other geopolitical issues may impact the purchasing decisions of current or potential customers. Because of these factors, we believe the level of demand for our products and services, and projections of future revenue and operating results, will continue to be difficult to predict.

We are required to delay revenue recognition into future periods for portions of our license fee activity.

Our entire worldwide business is subject to United States generally accepted accounting principles, commonly referred to as “U.S. GAAP.” Under those rules, we are required to defer revenue recognition for license fees in situations that include the following:

- the customer agreement includes products that are under development or has other undelivered elements;
- the customer agreement includes essential services, including significant modifications, customization or complex interfaces, (this is more prevalent with our M3 products);

- the customer agreement includes acceptance criteria;
- the customer agreement includes extended or contingent payment terms or fees;
- a third-party vendor, whose technology is incorporated into our products, delays delivery of its product to the customer;
- the customer agreement includes a fixed-fee service arrangement for which we do not have “vendor specific objective evidence” of fair value; or
- we are not able to establish historical pricing and maintenance renewal rates to meet the “vendor specific object evidence” (VSOE) requirements of these accounting rules.

We expect that we will continue to defer portions of our license fee activity because of these factors, with deferrals more likely for (a) our M3 products because of product customization (often required due to the nature of the manufacturing and distribution industries) that is frequently included with new sales, (b) sales to governmental entities because those often include fixed fee arrangements for which we do not have “vendor specific objective evidence” of fair value and (c) sales for large license fee contracts because it is more difficult to use standard contract terms. The amount of license fees deferred may be significant and will vary each quarter, depending on the mix of products sold in each market and geography, and the actual contract terms.

The risks to our business vary for each of our markets and geographies, and we might not achieve the operational efficiencies and synergies expected from the Intenia acquisition.

Since the closing of our acquisition of Intenia in April 2006, we have been integrating our two companies and executing on our business plan. Before the acquisition, Lawson focused primarily on targeted service industries in North America, with our S3 products, and Intenia focused primarily on manufacturing and distribution industries in Europe, with its M3 products. Our integration plan includes certain facility consolidations, operational process improvements in our consulting organization, optimization of our sales and marketing organizations, integration of research and development, and general employee redundancies. The following factors create execution risks for our business plan in our respective markets and geographies:

- ***Maintenance and services revenue and margins.*** Legacy Lawson had better maintenance revenue and margins, whereas Intenia had better professional services revenue and margins, in part due to its lower number of non-billable services consultants. We need to improve the overall maintenance and consulting services margin of our combined company to achieve our overall profitability goals. If new customer activity with new maintenance and services sales are below expectations our maintenance and services margins may decline because new customers are needed to offset attrition of existing customers who do not renew maintenance or who do not purchase additional services.
- ***Revenue from cross sales.*** Revenue growth through the cross sale of Lawson S3 and Intenia M3 products to our respective customers and new customers could be a challenge. Achieving our cross sale revenue goals requires an increase in the number of sales personnel trained to sell our broader set of products. This includes building a sales force in the Americas to allow increased focus on manufacturing and wholesale distribution customer prospects. It also includes training sales personnel from the former Intenia on selling Lawson S3 products and training sales personnel from the legacy Lawson organization on selling Intenia M3 products. Currently, our S3 business intelligence products (primarily in English) and M3 enterprise asset management products are available for cross sale. We plan to expand business intelligence products into other languages and expand other products for cross sale, including, for example our human capital management S3 products (excluding payroll). However, most of these product development projects could take more than a year to complete.
- ***Sales opportunity pipeline to support revenue growth.*** We must continually grow our sales pipeline to be able to achieve our revenue goals. Experienced, trained personnel are an

important source of sales leads in conjunction with company marketing. As a result, we need to continue hiring sales people to increase our pipeline and offset attrition.

- **Expanded product offerings.** Meaningful pipeline growth also requires that we continue to expand our product offerings through product development and acquisitions. For example, Lawson has been successful in penetrating a substantial portion of the healthcare market in the United States. However, because that market is becoming saturated we must continue to expand our healthcare product offerings in that market and grow other markets for our products, or our sales prospects could eventually decline.
- **EMEA pipeline.** Our sales pipeline for S3 products in the United States has been growing and must continue to grow for us to achieve our S3 revenue goals. The sales pipeline for M3 products in EMEA has not increased to the level required to achieve our M3 revenue goals. This requires a renewed focus on existing opportunities in EMEA as well as new opportunities for cross sales of S3 products in EMEA. If we do not increase our EMEA pipeline and in particular our pipeline for new customers, we will be challenged to achieve our long term revenue and profitability goals.
- **Asia Pacific Region (APAC) profitability.** Intentia's revenues in the APAC region are not high enough to support the current cost structure. We are exploring ways to increase APAC sales pipeline and revenues and better align costs in the APAC region, including expanded use of an indirect sales channel through business partners. Use of an indirect sales channel is typically at a lower margin and can take several quarters to implement. We currently plan to continue serving our existing customers in the APAC region, but changes in our cost structure and delivery methods could create revenue risks.

If we decide to take additional restructuring measures to address these risks, we may be required to incur financial charges in the period when we make that decision, which could have a material adverse impact on our results of operations for that period.

We may not retain or attract customers if we do not develop new products and enhance our current products in response to technological changes and competing products.

The enterprise software market is faced with rapid technological change, evolving standards in computer hardware, software development and communications infrastructure, and changing needs of customers. Building new products require significant development investment. A substantial portion of our research and development resources are devoted to product upgrades that address new technology support, regulatory and maintenance requirements putting constraints on our resources available for new product development. We also face uncertainty when we develop or acquire new products because there is no assurance that a sufficient market will develop for those products. We have begun producing certain products using a new business application platform we are developing known as "Landmark." The goals of Landmark are to simplify software development and improve product quality. Because we are in the early stages of utilizing Landmark, it is too early to confirm whether we will successfully achieve these goals.

Business disruptions may interfere with our ability to conduct business.

Our operating results and financial condition could be adversely affected in the event of a security breach, major fire, earthquake, war, terrorist attack, pandemic or other catastrophic event. Travel restrictions or impaired access or significant damage to our data center due to such an event could cause a disruption of business, which could adversely impact results of operations and financial conditions.

If we are unable to attract and retain qualified personnel, specifically software developers and sales personnel, we will be unable to develop new products and increase our revenue.

We rely on the continued service of our senior management, software developers, sales personnel, finance personnel and other key employees. In the software industry, there is substantial and continuous competition for highly skilled business, product development, technical and other personnel. The failure to attract, train, retain and effectively manage employees could negatively impact our development and sales efforts and cause a degradation of our customer service. In particular, the loss of sales or consulting personnel could lead to lost revenue opportunities because it can take several quarters to hire and train replacement sales or consulting personnel.

Deterioration in our relationship with resellers, systems integrators and other third parties that market and sell our products could reduce our revenues.

Currently, a small portion of our new license sales is generated by partners. Our revenue growth will depend, in part, on adding new partners to expand our sales channels, as well as leveraging our relationships with existing partners. If our relationships with these resellers, system integrators and strategic and technology partners deteriorate or terminate, we may lose sales and marketing opportunities. Some current and potential customers rely on third-party systems integrators to implement and manage new and existing applications. These systems integrators may increase their promotion of competing enterprise software applications, or may otherwise discontinue their relationships with us. We also license third-party software products that we incorporate into, or resell with, our own software products. For example, we incorporate Micro Focus International, Inc.'s software in many of our products and have reseller and alliance relationships with IBM, Business Software Incorporated, Business Objects, Hyperion Solutions Corporation, The Hackett Group, Inc. and other businesses that allow us to resell their offerings with our products and services. These relationships and other technology licenses are subject to periodic renewal and may include minimum sales requirements. A failure to renew or early termination of these relationships or other technology licenses could adversely impact our business.

The integration of Lawson's and Intenia's businesses is complex and increases the risks related to the existence of a material weakness in our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002.

As a Swedish company, Intenia was not required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 concerning the design and operating effectiveness of internal control over financial reporting. Consequently, Intenia did not have the staff, experience, training or procedures to comply with these requirements. Since the closing of the acquisition in April 2006, we have been integrating our two businesses and have compensated for the lack of finance staff at Intenia with finance staff at legacy Lawson which, in turn, has over-extended the finance staff at legacy Lawson. As of August 31, 2006, we have identified that a material weakness in our internal control over financial reporting exists relating to the lack of a sufficient number of qualified accounting personnel with the required proficiency to apply the Company's accounting policies in accordance with generally accepted accounting principles of the United States of America (U.S. GAAP). The existence of an internal control deficiency which has been assessed as a material weakness can increase the risk that the condensed consolidated financial statements included in this Report do not fairly present, in all material respects, the financial condition, results of operations and cash flows for the periods presented. As a result of the existence of this material weakness, we could encounter delays in our ability to complete our financial reporting on a timely basis and lose investor confidence in the accuracy and completeness of our financial reporting which, in turn, could have a negative market reaction.

We may have exposure to additional tax liabilities.

As a multinational organization, we are subject to income taxes as well as non-income based taxes, in both the United States as well as in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax provision and other tax liabilities. In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Our intercompany transfer pricing policies have been the subject of audits in various foreign tax jurisdictions and will likely be subject to additional audits in the future. Although we believe that our tax estimates are reasonable, there is no assurance that the final determination of tax audits

or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals. We are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, both in the United States and various foreign jurisdictions. We are regularly under audit by tax authorities with respect to these non-income taxes and may have additional exposure to additional non-income tax liabilities.

Our effective tax rate may increase or fluctuate, which could increase our income tax expense and reduce our net income.

Our effective tax rate could be adversely affected by several factors, many of which are outside of our control, including:

- Changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- Changing tax laws, regulations, and interpretations in multiple jurisdictions in which we operate;
- Unanticipated changes in tax rates;
- Changes in accounting and tax treatment of stock-based compensation;
- The tax effects of purchase accounting for acquisitions and restructuring charges that may cause fluctuations between reporting periods;
- Changes to the valuation allowance on net deferred tax assets; or
- the assessments, or any related tax interest or penalties, could significantly affect our income tax expense for the period in which the settlements take place.

We report our results of operations based on our determinations of the amount of taxes owed in the various tax jurisdictions in which we operate. Periodically, we receive notices that a tax authority to which we are subject has determined that we owe a greater amount of tax than we have reported to such authority, and we regularly engage in discussions, and sometimes disputes with these tax authorities. We are engaged in disputes of this nature at this time. If the ultimate determination of our taxes owed in any of these jurisdictions is for an amount in excess of the tax provision we have recorded or reserved for, our operating results, cash flows, and financial condition could be adversely affected.

Acquisition-related accounting charges may delay or reduce our profitability.

We are accounting for the acquisition of Intenia as a purchase following accounting principles generally accepted in the United States. Under the purchase method of accounting, the purchase price of Intenia will be allocated to the fair value of the identifiable tangible and intangible assets and liabilities that we acquire from Intenia. In addition, accounting for the combination of Intenia under the purchase method required a decrease in deferred revenue to fair value. The excess of the purchase price over Intenia's tangible net assets was allocated to goodwill and intangible assets. We are required to perform periodic impairment tests on goodwill and certain intangibles to evaluate whether the intangible assets and goodwill that we acquired from Intenia continue to have fair values that meet or exceed the amounts recorded on our balance sheet. If the fair values of such assets decline below their carrying value on our balance sheet, we may be required to recognize an impairment charge related to such decline. As of August 31, 2006 we had goodwill of \$453.9 million and acquired intangibles of \$149.5 million on our Condensed Consolidated Balance Sheets. As a result of the completed acquisition of Intenia, we have realized a significant increase in goodwill and acquired intangibles. To the extent that we do not generate sufficient cash flows to recover the net amount of the goodwill and intangibles recorded, the goodwill and intangibles could be subsequently written-off. In such an event, our results of operations in any given period would be negatively impacted, and the market price of our stock could decline.

International sales and operations subject us to risks that can adversely affect our operating results.

We will derive a substantial portion of our revenues, and have significant operations, outside of the United States. Our international operations include software development, sales, customer support and administration. We face challenges in managing an organization operating in various countries, which can entail longer payment cycles and difficulties in collecting accounts receivable, fluctuations in currency exchange rates, overlapping tax regimes, difficulties in transferring funds from certain countries and reduced protection for intellectual property rights in some countries. We must comply with a variety of international laws and regulations, including trade restrictions, local labor ordinances, and import and export requirements.

We may experience foreign currency gains and losses.

We conduct a portion of our business in currencies other than the United States dollar. Our revenues and operating results are adversely affected when the dollar strengthens relative to other currencies and are positively affected when the dollar weakens. Changes in the value of major foreign currencies, particularly the Euro, Swedish Krona and British Pound relative to the United States dollar can significantly affect revenues and our operating results. Our foreign currency transaction gains and losses are charged against earnings in the period incurred.

Our products are deployed in large and complex systems and may contain defects or security flaws.

Because our products are deployed in large and complex systems, they can only be fully tested for reliability when deployed in networks for long periods of time. Our software programs may contain undetected defects when first introduced or as new versions are released, and our customers may discover defects in our products, experience corruption of their data or encounter performance or scaling problems only after our software programs have been deployed. As a consequence, from time to time we have received customer complaints following installation of our products. We are currently a defendant in several lawsuits where customers have raised these types of issues with our products and services. In addition, our products are combined with products from other vendors. As a result, should problems occur, it may be difficult to identify the source of the problem. Software and data security are becoming increasingly important because of regulatory restrictions on data privacy and the significant legal exposures and business disruptions stemming from computer viruses and other unauthorized entry or use of computer systems. We may not be able to avoid or limit liability for disputes relating to product performance, software security or the provision of services. Product defects and security flaws could expose us to product liability and warranty claims and harm our reputation, which could impact our future sales of products and services.

Competitors may take advantage of our limited intellectual property protection.

We consider certain aspects of our internal operations, software and documentation to be proprietary, and rely on a combination of contract, copyright, trademark and trade secret laws to protect this information. In addition, we currently hold one patent in the United States and have filed several patent applications. Outstanding applications may not result in issued patents and, even if issued, the patents may not provide any competitive advantage. Copyright laws afford only limited protection because those laws do not protect product ideas. In addition, when we license our products to customers, we provide source code for many of our products. Customers may also access source code through a source code escrow arrangement. Access to our source code provides an opportunity for companies to offer competing maintenance and product modification services to our customers. Defending our intellectual property rights is time consuming and costly.

Others may claim that we infringe their intellectual property rights.

Many participants in the technology industry have an increasing number of patents and have frequently demonstrated a readiness to take legal action based on allegations of patent and other intellectual

property infringement. These types of claims are time consuming and costly to defend. If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be adversely affected.

We may be unable to identify or complete suitable acquisitions and investments; and any acquisitions and investments we do complete may create business difficulties or dilute our stockholders.

As part of our business strategy, we intend to pursue strategic acquisitions. We may be unable to identify suitable acquisitions or investment candidates. Even if we identify suitable candidates, we cannot provide assurance that we will be able to make acquisitions or investments on commercially acceptable terms. If we acquire a company, we may incur losses in the operations of that company and we may have difficulty integrating its products, personnel and operations into our business. In addition, its key personnel may decide not to work for us. We may also have difficulty integrating acquired businesses, products, services and technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and workforce, increase our expenses and adversely affect our operating results. We may also incorrectly judge the value or worth of an acquired company or business. Furthermore, we may incur significant debt or be required to issue equity securities to pay for future acquisitions or investments. The issuance of equity securities may be dilutive to our stockholders. If the products of an acquired company are not successful, those remaining assets could become impaired, which may result in an impairment loss that could materially adversely impact our financial position and results of operations.

Open source software may diminish our license fees and impair the ownership of our products.

The open source community is comprised of many different formal and informal groups of software developers and individuals who have created a wide variety of software and have made that software available for use, distribution and modification, often free of charge. Open source software, such as the Linux operating system, has been gaining in popularity among business users. If developers contribute enterprise application software to the open source community, and that software has competitive features and scale to business users in our markets, we will need to change our product pricing and distribution strategy to compete. If one of our developers embedded open source components into one of our products, without our knowledge or authorization, our ownership and licensing of that product could be in jeopardy. Depending on the open source license terms, the use of an open source component could mean that all products delivered with that open source component become part of the open source community. In that case, we would not own those delivered products and could not charge license fees for those products. We currently take steps to train our developers and monitor the content of products in development, but there is no assurance that these steps will always be effective.

We have adopted anti-takeover defenses that could make it difficult for another company to acquire control of Lawson or limit the price investors might be willing to pay for our stock.

Provisions in our amended and restated certificate of incorporation and bylaws, our stockholder rights plan and under Delaware law could make it more difficult for other businesses to acquire us, even if doing so would benefit our stockholders. Our amended and restated certificate of incorporation and bylaws contain the following provisions, among others, which may inhibit an acquisition of our company by a third-party:

- advance notification procedures for matters to be brought before stockholder meetings;
- a limitation on who may call stockholder meetings;
- a prohibition on stockholder action by written consent; and
- the ability of our board of directors to issue shares of preferred stock without a stockholder vote.

The issuance of stock under our stockholder rights plan could delay, deter or prevent a takeover attempt that stockholders might consider in their best interests. We are also subject to provisions of Delaware law that prohibit us from engaging in any business combination with any "interested stockholder," meaning generally that a stockholder who beneficially owns more than 15% of our stock cannot acquire us for a period of three years from the date this person became an interested stockholder unless various conditions are met, such as approval of the transaction by our board of directors. Any of these restrictions could have the effect of delaying or preventing a change in control.

Control by existing shareholders could significantly influence matters requiring stockholder approval.

As of August 31, 2006, our executive officers, directors, and affiliated entities, in the aggregate, beneficially owned 27.0% of our outstanding common stock. These stockholders, if acting together, would be able to significantly influence all matters requiring approval by stockholders, including the election of directors and the approval of mergers or other business combinations. Sale of a portion of these shares in the public market, or the perception that such sales are likely to occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities.

Our stock price could become more volatile and your investment could lose value.

All of the factors discussed above could affect our stock price, as well as speculation in the press and the analyst community, changes in recommendations or earnings estimates by financial analysts, changes in analysts' valuation measures for our stock, and market trends. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Use of Proceeds

As of August 31, 2006, we held \$55.5 million of net proceeds from our initial public offering in interest-bearing, investment grade securities. During the three months ended August 31, 2006, we used approximately \$2.6 million for capital expenditures, \$0.7 million for repayment of debt and payment of capital lease obligations and \$2.0 million for the acquisition of CAS.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Harry Debes.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act- Stefan B. Schulz.
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act- Harry Debes.
- 32.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act- Stefan B. Schulz.
- 10.23 Employment Agreement dated October 5, 2006 between Lawson Software, Inc. and Robert Schriesheim.
- 10.24 Option Agreement dated October 5, 2006 between Lawson Software, Inc. and Robert Schriesheim.

SIGNATURES

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

Date: October 10, 2006

LAWSON SOFTWARE, INC.

By: /s/ STEFAN B. SCHULZ
Stefan B. Schulz
Acting Chief Financial Officer,
Senior Vice President and Global Controller
(principal financial and accounting officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENTS
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EMPLOYMENT AGREEMENT

This Employment Agreement (“*Agreement*”) is made and entered into effective as of the Agreement Date, between Lawson Software, Inc., a Delaware corporation, having its principal place of business in St. Paul, Minnesota (the “*Company*” or “*Lawson*”) and Robert A. Schriesheim (“*Employee*”), for the purpose of setting forth the terms and conditions of Employee’s employment by the Company

Recitals

WHEREAS, the Company desires to employ Employee as described in this Agreement, and Employee desires to accept and serve in that capacity; and

WHEREAS, Employee understands that such employment is expressly conditioned on execution of this Agreement; and

WHEREAS, Company desires to employ Employee to render services for Company on the terms and conditions set forth in this Agreement, and Employee desires to be retained and employed by Company pursuant to such terms and conditions.

Agreement

NOW, THEREFORE, in consideration of Employee’s employment with Company and the foregoing premises, the mutual covenants set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Company and Employee agree as follows:

Article I. Definitions

1.1 “*Agreement*” means this Employment Agreement, as from time to time amended.

1.2 “*Agreement Date*” means October 5, 2006, which is the date on which Employee started as a full time employee of the Company or any Subsidiary.

1.3 “*Base Salary*” means the total annual cash compensation payable on a regular periodic basis, without regard to taxes and other items withheld, and excluding all types of incentive pay, all forms of stock or equity based compensation, fringe benefits, special pay or awards, commissions and bonuses. Base Salary shall include amounts contributed by Employee to a qualified retirement plan, nonqualified deferred compensation plan or similar plan sponsored by the Company, but it shall not include earnings on those amounts.

1.4 “*Board*” means the Board of Directors of Company.

1.5 “*Cause*” means: (1) material breach by Employee of this Agreement or the Invention and Non-Disclosure Agreement; (2) any material violation by Employee of the Company’s policies, rules or regulations that has a material adverse effect on the Company (as reasonably determined by the Company); (3) commission of any act of fraud, embezzlement or dishonesty by Employee that is materially injurious to the Company (as reasonably determined by the Company); (4) any other intentional misconduct by Employee adversely affecting the business or affairs of the Company or any Subsidiary in any material manner (as reasonably determined by the Company); or (5) intentional or

willful failure of the Employee to materially perform Employee's responsibilities hereunder, other than as a result of permitted leave of absence, vacation, injury or illness.

1.6 *"Change of Control"* means: (1) the closing of a tender offer or exchange offer for the ownership of 50% or more of the outstanding voting securities of the Company; (2) the Company shall have entered into a definitive agreement with respect to a tender offer, exchange offer or merger, consolidation or other business combination with another corporation and as a result of such tender offer, exchange offer, merger, consolidation or combination 50% or fewer of the outstanding voting securities of the surviving or resulting corporation are owned in the aggregate by the former stockholders of the Company, other than affiliates (within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation; (3) the Company shall have entered into a definitive agreement to sell substantially all of its assets to another corporation which is not a direct or indirect wholly owned Subsidiary of the Company; (4) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date of this Agreement) of the Exchange Act, shall acquire 50% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record) (for purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) as in effect on the date of this Agreement) pursuant to the Exchange Act; (5) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company; or (6) individuals who constitute the Company's Board of Directors on the date of this Agreement (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least 50% of the directors comprising the Incumbent Board shall be, for purposes of this clause (6), considered as though such person were a member of the Incumbent Board. Notwithstanding the foregoing, the Lawson/Intentia Transaction is not a Change of Control of the Company.

1.7 *"Disability"* means Employee's permanent disability as defined under any long term disability plan of the Company, or in the absence of such plan, the inability of Employee, due to illness or injury, to substantially perform his duties hereunder (after taking into account any reasonable accommodation required by the Americans with Disabilities Act) for a period of at least 180 consecutive days. The determination of a Disability shall be based on competent medical opinion.

1.8 *"Good Reason"* means: (1) Company effects a material diminution of Employee's duties or reporting responsibilities or a diminution of Employee's title of Chief Financial Officer of the Company; (2) the failure by Company, or its successor, if any, to pay compensation or provide benefits to Employee as and when required by the terms of this Agreement; or (3) any material breach by Company of this Agreement that is not timely cured by Company after notice from Employee.

1.9 *"Invention and Non-Disclosure Agreement"* means the Lawson Software, Inc. Employee Invention and Non-Disclosure Agreement entered into between the Company and Employee.

1.10 *"Plan"* means any bonus or incentive compensation agreement, plan, program, policy or arrangement sponsored, maintained or contributed to by Company, to which Company is a party or under which employees of Company are covered, including, without limitation, any stock option, restricted stock or any other equity based compensation plan, and any employee benefit plan, such as a thrift, pension, profit sharing, deferred compensation, medical, dental, disability, accident, life insurance, automobile allowance, perquisite, fringe benefit, vacation, sick or parental leave, severance or relocation

plan or policy or any other agreement, plan, program, policy or arrangement intended to benefit employees or executive officers of Company.

1.11 “*Subsidiary*” means any corporation at least a majority of whose securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the occurrence of a contingency) is at the time owned by the Company and/or one (1) or more Subsidiaries.

1.12 “*Release/Restrictive Covenant*” means the form of General Release and Restrictive Covenants attached as Exhibit A.

1.13 “*Term*” means the period during which this Agreement is in effect.

Article II. Employment, Term, and Duties

2.1 Employment. Company hereby employs Employee as executive vice president and as an executive officer of the Company as of the Agreement Date. Commencing October 11, 2006 and continuing for the balance of the Term, Employee shall serve as the Company’s Chief Financial Officer and Principal Financial Officer, pursuant to the Company’s Bylaws. Employee accepts such employment and agrees to perform services for Company for the period and upon the other terms and conditions set forth in this Agreement.

2.2 Term. The Term shall commence on the Agreement Date and continue in effect until terminated in accordance with Article IV of this Agreement.

2.3 Position and Duties.

(a) Service with Company. During the Term, Employee shall report to the Chief Executive Officer and agrees to perform such duties and responsibilities (a) as are set forth for that position in the By-laws of the Company; (b) as the Chief Executive Officer or the Board shall assign to the Employee from time to time consistent with Employee’s position; and (c) that the Employee undertakes or accepts consistent with Employee’s position. Employee acknowledges and agrees that, from time to time, Employee will be required to perform duties with respect to one or more of the Company’s Subsidiary or affiliate companies and that Employee will not be entitled to any additional compensation for performing those duties. Employee also agrees to serve, for any period for which Employee is elected, as a director of Company; *provided, however*, that Employee shall not be entitled to any additional compensation for serving as a director after the Agreement Date. Upon termination of Employee’s employment, for whatever reason, Employee will be deemed to have resigned as an officer and director of the Company.

(b) Performance of Duties. Commencing as of the Agreement Date, Employee agrees to devote Employee’s full business time, attention and efforts to the business and affairs of Company (exclusive of any period of vacation, sick, disability or other leave to which Employee is entitled). Employee may participate in charitable and civic activities so long as Employee remains available to provide Employee’s full time services to the Company. Employee will review and agree to comply with the Company’s then current Code of Conduct to the same extent required for other United States-based employees of the Company. Employee will perform all of Employee’s responsibilities in compliance with all applicable laws. Employee acknowledges that in Employee’s capacity as principal executive officer of the Company, Employee will be expected to execute certain documents on behalf of the Company under the federal securities laws, which may include documents covering periods prior to the Agreement Date.

2.4 Location. Employee shall be located in the Company's St. Paul, Minnesota office and in the Company's Schaumburg, Illinois office.

2.5 Outside Directorships. It is recognized that as of the Agreement Date, Employee has existing commitments on two public boards including Dobson Communications (Nasdaq: DCEL) and Skyworks Solutions (Nasdaq: SWKS), neither of which compete in any business with the Company. One of those companies is currently a customer of Lawson, and the approximate \$250,000 in annual payments to Lawson from that company are less than five percent (5%) of either that company's or Lawson's respective annual revenue. Lawson acknowledges that Employee has committed to become a stockholder and director of Alyst Acquisitions, Inc., a telecommunications firm known as a specified purpose acquisition company ("SPAC"). Any time Employee devotes to outside director positions will be Employee's personal or vacation days. Employee will accept no additional non-Lawson roles or directorships without approval from Lawson's Chief Executive Officers and Board of Directors. Employee acknowledges that Lawson will be Employee's full time position and employee will manage any conflicts accordingly to Lawson's favor.

Article III. Compensation, Benefits and Expenses

3.1 Base Salary. Subject to the provisions of Article IV of this Agreement, during the Term Company shall pay Employee a Base Salary at an annual rate that is not less than Four Hundred Thousand dollars (\$400,000.00) or such higher annual rate as may from time to time be approved by the Board, such Base Salary to be paid in substantially equal regular periodic payments, less deductions and withholdings, in accordance with Company's regular payroll procedures, policies and practices as such may be modified from time to time. Employee shall be eligible, at Company's sole discretion, for annual salary increases consistent with such procedures, policies and practices and if Employee's Base Salary is increased from time to time during the Term, the increased amount shall become the Base Salary for the remainder of the Term and for as long thereafter as required pursuant to Article IV, subject to any subsequent increases. Employee's Base Salary may not be decreased during the Term.

3.2 Incentive Compensation. Employee will participate in the Company's Executive Leadership Results Plan ("ELRP") in accordance with which Employee may earn an annual incentive bonus. The terms of the annual incentive bonus plan, including the criteria upon which Employee can earn the maximum bonus, will be determined annually by the Board. Employee's annualized target incentive compensation under the ELRP for the fiscal year ending May 31, 2007 ("FY07") shall be Four Hundred Thousand dollars (\$400,000); provided, however that any incentive compensation awarded under the ELRP for the Company's second fiscal quarter ending November 30, 2006 and the fiscal year ending shall be adjusted on a pro-rata basis by the number of calendar days that Employee is a full time employee during the applicable performance period in FY07. For years after FY07, Employee's annual target incentive compensation shall be an amount equal to his annual Base Salary as of the beginning of the applicable performance period. Under the ELRP, a participant must be employed by the Company on the last day of a fiscal year to be eligible to receive annual incentive compensation that is payable for that fiscal year.

3.3 Stock Options. As of the Agreement Date, the Company will approve the grant to Employee of an option to purchase 1,000,000 shares of the Company's common stock (the "Stock Option") in accordance with the terms of the Company's 1996 Stock Incentive Plan, as the same may be amended from time to time ("1996 Plan"), and a nonqualified stock option agreement will be entered into by the Employee and the Company (the "Option Agreement"). The Stock Option will be subject to vesting and other requirements described in the Option Agreement and 1996 Plan.

3.4 Participation in Benefits. During the Term of Employee's employment by Company, Employee shall be entitled to participate in the employee benefits offered generally by Company to its employees, to the extent that Employee's position, tenure, salary, health and other qualifications make Employee eligible to participate. Employee's participation in such benefits shall be subject to the terms of the applicable plans, as the same may be amended from time to time. Company does not guarantee the adoption or continuance of any particular employee benefit during Employee's employment, and nothing in this Agreement is intended to, or shall in any way restrict the right of Company, to amend, modify or terminate any of its benefits during the Term.

3.5 Expenses. In accordance with Company's normal policies for expense reimbursement, Company will reimburse Employee for all reasonable and necessary expenses incurred by Employee in the performance of Employee's duties under this Agreement, subject to the presentment of receipts or other documentation acceptable to Company.

3.6 Travel and Living Expenses. During the first three years of the Term, the Company will pay Employee's airfare expenses between Chicago, Illinois and St. Paul, Minnesota under the Company's travel policy and Employee's living expenses in St. Paul, Minnesota up to an aggregate amount of \$75,000 during that three-year period for such airfare and living expenses, with an annual limit of \$25,000 for such airfare and living expenses (collectively, the "Travel and Living Expenses"). In addition, the Company will pay Employee the amount of federal and state personal income taxes payable by Employee on the reimbursed Travel and Living Expenses, plus the amount of federal and state personal income taxes payable on the tax reimbursements under this Section 3.6 (the "Tax Gross-Up"). The Tax Gross-Up and Travel and Living Expenses may together exceed the \$75,000 three-year limitation or the \$25,000 annual limitation referred to above, but the Travel and Living Expenses (before the Tax Gross-Up) must be within those respective limits.

3.7 No Prior Period Restatements. As of the date hereof, the Company represents and warrants that the Company has complied with all financial reporting requirements under the federal securities laws in all material respects, and no facts, events or circumstances exist which would require the Company to prepare an accounting restatement due to misconduct within the meaning of Section 304 of the Sarbanes-Oxley Act of 2002. In the event that the Company prepares an accounting restatement for a fiscal period ending prior to the Agreement Date, the Company shall at its expense file a petition with the Securities and Exchange Commission under Section 304(b) of the Sarbanes-Oxley Act seeking to exempt Employee from the operation of the Section 304(a) thereof.

3.8 Tier 1 Change of Control Severance Pay Plan Is Applicable to Employee. Employee will be considered a "Tier 1 Executive" under the then current terms of the Company's Executive Change in Control Severance Pay Plan for Tier 1 Executives (first adopted by the Company on January 17, 2005).

Article IV. Termination and Compensation Following Termination

4.1 Termination. Subject to the respective continuing obligations of the parties under this Agreement, the Term and Employee's employment hereunder may be terminated under the following circumstances:

- (a) Mutual Agreement. By mutual written agreement of the parties at any time.
- (b) Death. In the event of Employee's death.

(c) Employee's Disability. In the event Employee becomes Disabled. During the period in which Employee is absent from work due to an injury or illness which may result in a Disability, the Company shall continue to pay to Employee the compensation, benefits and other payments and awards set forth in Article III hereof.

(d) Termination by Company for Cause. Company may terminate this Agreement and Employee's employment hereunder for Cause at any time after providing written notice to Employee. Notwithstanding the foregoing, a termination for Cause, if susceptible of cure, shall not become effective unless Employee fails to cure such failure to perform within 10 days after written notice from Company, such notice to describe such failure to perform and identify what reasonable actions shall be required to cure such failure to perform.

(e) Termination By Employee For Good Reason. Employee may terminate Employee's employment hereunder for Good Reason. Notwithstanding the foregoing, the Employee shall have Good Reason to terminate Employee's employment only if (i) Employee notifies the Company in writing that Employee has determined Good Reason exists and specifies the event creating Good Reason, and (ii) following receipt of such notice, the Company fails to remedy such event within 10 days.

(f) Termination by Company Without Cause. Company may terminate Employee's employment hereunder at any time for any reason (including without limitation a Change in Control), or no reason and with notice.

(g) Termination by Employee Without Good Reason. The Employee may terminate Employee's employment hereunder at any time for any reason (including without limitation a Change in Control) or no reason, upon 10 days advance written notice.

4.2 Effect of Termination. Notwithstanding any termination of this Agreement and/or Employee's employment with Company, Employee, in consideration of Employee's employment hereunder to the date of such termination, shall remain bound by the provisions of this Agreement that specifically relate to periods, activities or obligations upon or subsequent to the termination of Employee's employment, including, but not limited to, the covenants contained in Article V and the Invention and Non-Disclosure Agreement.

4.3 Surrender of Records and Property. Upon termination of Employee's employment with Company, Employee shall deliver promptly to Company all records, manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, computers, computer disks, computer software, computer programs (including source code, object code, on-line files, documentation, testing materials and plans and reports), designs, drawings, sketches, devices, specifications, formulae, data, tables or calculations or copies thereof, which are the property of Company or any subsidiary or affiliate or which relate in any way to the business, products, practices or techniques of Company or any Subsidiary.

4.4 Compensation Following Termination of the Term. In the event that Employee's employment hereunder is terminated prior to the end of the Term, Employee shall be entitled only to the following compensation and benefits upon such termination; provided, however, as a condition precedent to the payment of any severance under Section 4.4(b) of this Agreement, Employee shall have executed the General Release and Restrictive Covenants in the form attached hereto as Exhibit A (the "Release/Restrictive Covenant") and the revocation or rescission period specified therein shall have expired:

(a) Termination by Company for Cause or by Employee Without Good Reason. If the Employee's employment is terminated by the Company for Cause or the Employee voluntarily terminates employment without Good Reason, the Company shall promptly pay to the Employee (1) any Base Salary earned but not paid through the date of Employee's employment termination, plus (2) any bonus that is earned because Employee was employed on the last day of the fiscal year as provided in Section 3.2, and amounts that Employee is entitled to under any equity compensation, bonus, benefit or other plan of, or agreement with the Company in accordance with the terms of such plan or agreement. The Company shall have no further obligations under this Agreement.

(b) Termination by Employee for Good Reason; Termination by the Company Without Cause; Termination by Reason of Employee's Death or Disability. In the event that Employee's employment is terminated by Employee for Good Reason, by the Company without Cause (whether or not there is a Change of Control) or by reason of Employee's death or Disability, Company shall promptly pay to Employee, Employee's estate or Employee's spouse, as the case may be: (1) any amounts due to Employee for Base Salary through the date of employment termination, together with any other unpaid and pro rata amounts to which Employee is entitled as of the date of termination pursuant to Article III of this Agreement, including, without limitation, any bonus that is earned because Employee was employed on the last day of the fiscal year as provided in Section 3.2, amounts that Employee is entitled to under any equity compensation, bonus, benefit or other plan of, or agreement with, the Company in accordance with the terms of such plan or agreement, plus (2) one times Employee's then current annual Base Salary plus (3) one times Employee's then current annual target bonus plus (4) for fiscal years beginning on or after June 1, 2007, if Employee's termination occurs during the second half of the Company's fiscal year, a target annual bonus, to the extent not previously paid, pro rated based on number of days employed during such fiscal) for such fiscal year. Except to the extent expressly described in a stock option agreement or other award, Employee will have no rights to any unvested benefits or any other compensation or payments coming due after the date of Employee's employment termination. The Company shall have no further obligations under this Agreement.

4.5 No Mitigation Obligation. Employee shall not be required to mitigate the amount of any payment provided to Employee under Section 4.4 of this Agreement by seeking other employment. The Company may not claim a right of offset to reduce any payment to Employee required hereunder

4.6 No Other Benefits or Compensation. Except as may be provided under this Agreement, under the terms of any incentive compensation, employee benefit or fringe benefit plan applicable to Employee at the time of the termination of Employee's employment, Employee shall have no right to receive any other compensation or to participate in any other plan, arrangement or benefit, with respect to any future period after such termination or resignation.

4.7 IRC Section 409A and Delay of Payment. If any amounts payable to Employee pursuant to this Agreement are subject to Section 409A of the United States Internal Revenue Code ("Section 409A"), an exception to Section 409A does not apply, and the Company is a publicly traded corporation at the time of Employee's termination of employment or first scheduled payment of such amount, then, notwithstanding any provision in this Agreement to the contrary: (a) the payment of such amount will be made to Employee six months plus five business days following the date of Employee's termination of employment (provided that at the time of actual payment Employee has met all other requirements for that payment under this Agreement), (b) no payment of such amount will be made to Employee before the date described in clause (a) above, and (c) no interest shall accrue or be payable to Employee for any

payments that are delayed pursuant to this Section 4.7. The Company assumes no obligation to pay or reimburse Employee for any taxes incurred under Section 409A.

Article V. Noncompetition and Nonsolicitation

5.1 Release/Restrictive Covenant. The Release/Restrictive Covenant attached as Exhibit A includes certain noncompetition and nonsolicitation covenants of Employee that are a condition precedent to the payment of any severance under Section 4.4(b) above.

5.2 Covenant Not To Compete—Five Competitors. Before the payment of any severance under Section 4.4(b) of this Agreement and execution of the Release/Restrictive Covenant, within five days following termination of employment, the Company shall notify Employee of the names of five competitors that will be identified as the “Five Competitors” in Section 2.1 of the Release/Restrictive Covenant.

5.3 Covenant Not To Compete—25 Clients/Prospects. Before the payment of any severance under Section 4.4(b) of this Agreement and execution of the Release/Restrictive Covenant, within five days following termination of employment, the Company shall notify Employee of the names of 25 clients and/or prospects that will be identified as the “25 Clients/Prospects” in Section 2.2 of the Release/Restrictive Covenant.

Article VI. Tax Consideration.

Notwithstanding anything herein to the contrary, in the event any payments, benefits, or distributions (or combination thereof) from the Company, any affiliates, or any trust established by the Company or any affiliate for the benefit of its employees, to the Employee or for Employee’s benefit (including, without limitation, payments hereunder or under any equity or option award, including the value of any acceleration of such award), (“Total Payments”) are determined by the Company to be subject to the tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”) or any similar federal or state excise tax, FICA tax, or any interest or penalties are incurred by the Employee with respect to such excise tax (such excise tax, together with any such interest or penalties are hereinafter collectively referred to as the “Excise Tax”), the Company shall pay to the Employee an additional amount (the “Gross-Up Payment”) such that after the payment by the Employee of all federal, state, or local income taxes, Excise Taxes, FICA taxes, or other taxes (including any interest or penalties imposed with respect thereto) imposed upon the receipt of the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed on the Total Payments. Any Gross-Up Payment may be withheld by the Company from the Employee and submitted to the applicable governmental taxing authorities on Employee’s behalf.

If the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of employment, the Employee shall repay to the Company, at the time the reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction; provided, however, that Employee shall not be obligated to return such excess until receipt by the Employee of a refund of such amount from the applicable governmental taxing authorities. . If the Excise Tax is determined to exceed the amount taken into account hereunder at the time of termination of employment, the Company shall make an additional Gross-Up Payment to the Employee (or to the applicable governmental taxing authorities as withholding on the Employee’s behalf) in respect of such excess at the time the amount of such excess is finally determined. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the

payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Employee is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which he or she gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

- (a) give the Company any information reasonably requested by the Company relating to such claim;
- (b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;
- (c) cooperate with the Company in good faith in order to effectively contest such claim; and
- (d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including legal and accounting fees and additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax, FICA tax, or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Article VI, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings, and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction, and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis, and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a

Gross-Up Payment would be payable hereunder and the Employee shall be entitled to settle or contest, as the case may be, other issues raised by the Internal Revenue Service or any other taxing authority.

If any such claim referred to in this Article VI is made by the Internal Revenue Service and the Company does not request the Employee to contest the claim within the thirty (30) day period following notice of the claim, the Company shall pay to the Employee the amount on any Gross-Up Payment owed to the Employee, but not previously paid pursuant to this Article VI, immediately upon the expiration of such thirty (30) day period. If any such claim is made by the Internal Revenue Service and the Company requests the Employee to contest such claim, but does not advance the amount of such claim to the Employee for purposes of such contest, the Company shall pay to the Employee the amount of any Gross-Up Payment owed to the Employee, but not previously paid under the provisions of this Article VI, within five (5) business days of a Final Determination of the liability of the Employee for such Excise Tax. For purposes of this Agreement, a "Final Determination" shall be deemed to occur with respect to a claim when (i) there is a decision, judgment, decree, or other order by any court of competent jurisdiction, which decision, judgment, decree, or other order has become final, i.e., all allowable appeals pursuant to this Article VI have been exhausted by either party to the action, (ii) there is a closing agreement made under Section 7121 of the Code, or (iii) the time for instituting a claim for refund has expired, or if a claim was filed, the time for instituting suit with respect thereto has expired.

If, after the receipt by the Employee of an amount advanced by the Company pursuant to this Article VI, the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of this Article VI) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If after the receipt by the Employee of an amount advanced by the Company pursuant to this Article VI, a determination is made by the Internal Revenue Service that the Employee is not entitled to any refund with respect to such claim and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

Article VII. Miscellaneous Provisions

7.1 **Tax Consequences.** Employee acknowledges and agrees that Company has made no representations or warranties with respect to the tax consequences of any of the payments or other consideration provided by Company to Employee under the terms of this Agreement, and that Employee is solely responsible for Employee's compliance with any and all laws applicable to such payments or other consideration.

7.2 **Withholding Taxes.** Company may take such action as it deems appropriate to insure that all applicable federal, state, city and other payroll, withholding, income or other taxes arising from any compensation, benefits or any other payments made pursuant to this Agreement, or any other contract, agreement or understanding that relates, in whole or in part, to Employee's employment with Company, are withheld or collected from Employee. The Company may deduct applicable withholding taxes from any payments to Employee under this Agreement.

7.3 **Assignment.** This Agreement shall not be assignable, in whole or in part, by any party without the written consent of the other party and any purported or attempted assignment or transfer of

this Agreement or any of Employee's duties, responsibilities or obligations hereunder shall be void. This Agreement is binding upon Employee, Employee's heirs and personal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Notwithstanding the foregoing, the Company may, without the consent of Employee, assign its rights and obligations under this Agreement to any business entity that has become the legal successor to Company in the event of a sale, merger, liquidation or similar transaction.

7.4 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing, shall be deemed to have been duly given on the date of service if personally served on the parties to whom notice is to be given, or on the second day after mailing if mailed to the parties to whom notice is given, by registered or certified mail, return receipt requested, postage prepaid and properly addressed as follows:

- If to the Company, at: Lawson Software, Inc.
 380 St. Peter Street
 St. Paul, MN 55102
 Attn: Corporate Secretary

- If to Employee, at: (Last address of Employee on record at the Company)

- With a copy to: Wayne R. Luepker
 Mayer, Brown, Rowe & Maw LLP
 71 S. Wacker Drive
 Chicago, IL 60606

Any party may change the address for the purpose of this Section by giving the other written notice of the new address in the manner set forth above.

7.5 Governing Law. The validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Minnesota, without regard to conflicts of laws principles thereof.

7.6 Severability. In the event any provision of this Agreement (or portion thereof) shall be held illegal or invalid for any reason, said illegality or invalidity shall not in any way affect the legality or validity of any other provision of this Agreement. To the extent any provision (or portion thereof) of this Agreement shall be determined to be invalid or unenforceable in any jurisdiction, such provision (or portion thereof) shall be deemed to be deleted from this Agreement as to such jurisdiction only, and the validity and enforceability of the remainder of such provision and of this Agreement shall be unaffected.

7.7 Entire Agreement. This Agreement and the agreements and Plans expressly referenced above is the final, complete and exclusive agreement of the parties and sets forth the entire agreement between Company and Employee with respect to Employee's employment by Company, and there are no undertakings, covenants or commitments other than as set forth therein. The Agreement may not be altered or amended, except by a writing executed by the party against whom such alteration or amendment is to be enforced.

7.8 Counterparts. This Agreement may be simultaneously executed in any number of counterparts and by facsimile.

7.9 Survival. The parties expressly acknowledge and agree that the provisions of this Agreement that by their express or implied terms extend beyond the expiration of this Agreement or the termination of Employee's employment under this Agreement, shall continue in full force and effect, notwithstanding Employee's termination of employment under this Agreement or the expiration of this Agreement.

7.10 Waivers. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy under this Agreement preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document or by law.

7.11 No Conflicting Obligations. Employee represents and warrants to Company that Employee is free to enter into this Agreement and has no contract, commitment, arrangement or understanding to or with any party that restrains or is in conflict with Employee's performance of the covenants, services and duties provided for in this Agreement.

7.12 Read and Understood. Employee has read this Agreement carefully and understands each of its terms and conditions. Employee has sought independent legal counsel of Employee's choice (and at Employee's own expense) to the extent Employee deemed such advice necessary in connection with the review and execution of this Agreement.

7.13 Indemnification. The Company shall indemnify Employee to the fullest extent permitted by the Company's certificate of incorporation and bylaws, and any change to those documents that diminish any protection afforded as of the date hereof to officers or members of the Board thereunder shall not be applied to reduce Employee's protection thereunder. The provisions under this Section shall continue to apply to Employee following his termination of employment.

7.14. Arbitration. All disputes in any way relating to this Agreement or in any way relating to Employee's employment by the Employer, will be resolved by binding arbitration in St. Paul/ Minneapolis in accordance with the commercial arbitration rules of the American Arbitration Association then in effect. Each party shall pay its own costs and expenses (including attorneys' fees) relating to such dispute and the arbitration, except that if the arbitrator determines that the Company did not have a good faith dispute or the Company was in intentional breach of this Agreement or of any other agreement between the Company and Employee, the Company shall be required to pay the costs and expenses (including reasonable attorneys' fees) relating to such dispute and the arbitration.

7.15 Attorneys' Fees. The Company shall pay Employee's attorneys' fees in negotiating this Agreement and ancillary documents relating thereto in an amount not to exceed \$10,000.00

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Lawson Software, Inc.

By _____
Harry Debes, Chief Executive Officer

Robert A. Schriesheim

GENERAL RELEASE AND RESTRICTIVE COVENANTS

This General Release and Restrictive Covenants (“Release/Restrictive Covenant”) is made and entered into as of the day of _____, _____, by Robert A. Schriesheim (“Employee”).

WHEREAS, Lawson Software, Inc. (the “Company”) and Employee are parties to an Employment Agreement dated October 5, 2006;

WHEREAS, Employee intends to settle any and all claims that Employee has or may have against Company as a result of Employee’s employment with Company and the cessation of Employee’s employment with Company; and

WHEREAS, Under the terms of the Employment Agreement, which Employee agrees are fair and reasonable, Employee agreed to enter into this Release/Restrictive Covenant as a condition precedent to the severance arrangements described in Article IV of the Employment Agreement.

NOW, THEREFORE, in consideration of the provisions and the mutual covenants herein contained, the parties agree as follows:

1. **Release.** For the consideration expressed in the Employment Agreement, Employee does hereby fully and completely release and waive any and all claims, complaints, causes of action, demands, suits and damages, of any kind or character, which Employee has or may have against the Released Parties, as hereinafter defined, arising out of any acts, omissions, conduct, decisions, behavior or events, in each case directly relating to his employment by the Company, occurring up through the date of Employee’s signature on this Release/Restrictive Covenant, including Employee’s employment with Company and the cessation of that employment. For purposes of this Release/Restrictive Covenant, “Released Parties” means collectively Company, its predecessors, successors, assigns, parents, affiliates, subsidiaries, related companies, officers, directors, shareholders, agents, servants, employees and insurers, and each and all thereof.

Employee understands and accepts that Employee’s release of claims includes any and all possible discrimination claims, including, but not limited to, claims based upon: Title VII of the Federal Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act; the Americans with Disabilities Act; the Equal Pay Act; the Fair Labor Standards Act; the Employee Retirement Income Security Act; the Minnesota Human Rights Act; Minn. Stat. §181.81; the Minneapolis or St. Paul Code of Ordinances; or any other federal, state or local statute, ordinance or law. Employee also understands that Employee is giving up all other claims, including those grounded in contract or tort theories, including, but not limited to: wrongful discharge; violation of Minn. Stat. §176.82; breach of contract; tortious interference with contractual relations; promissory estoppel; breach of the implied covenant of good faith and fair dealing; breach of express or implied promise; breach of manuals or other policies; assault; battery; fraud; false imprisonment; invasion of privacy; intentional or negligent misrepresentation; defamation, including libel, slander, discharge defamation and self-publication defamation; discharge in violation of public policy; whistleblower; intentional or negligent infliction of emotional distress; or any other theory, whether legal or equitable.

Employee further understands that, with respect to the claims he has released as provided above, Employee is releasing, and does hereby release, any claims for damages, by charge or otherwise, whether brought by Employee or on Employee’s behalf by any other party, governmental or otherwise, and agrees

not to institute any claims for damages via administrative or legal proceedings against any of the Released Parties. Employee also waives and releases, with respect to the claims he has released as provided above, any and all rights to money damages or other legal relief awarded by any governmental agency related to any charge or other claim against any of the Released Parties.

This Section 1 does not apply to any post-termination claim that Employee may have for benefits or other payments required under the provisions of the Employment Agreement, equity compensation, bonus, employee benefit, or other plan of or agreement with Company.

Employee's release of claims shall not apply to any claims Employee might have to indemnification under Minnesota Statute §302A.521, any other applicable statute or regulation or Company's by-laws or pursuant to the Employment Agreement. *[when this document is signed at the time of termination of employment, the above provisions will be updated to include the laws of the jurisdiction applicable to Employee's state and location of residence, if different from Minnesota]*

2. Covenants Restricting Employee. Employee covenants and agrees as follows:

2.1 Covenant Not To Compete—Five Competitors. Employee covenants and agrees that throughout the one year period after the date of this Release/Restrictive Covenant, Employee shall not: (a) be employed by [Company will fill in names of 5 competitors of the Company] (or any of their respective wholly owned subsidiaries) (collectively referred to as the "Five Competitors") or (b) directly or indirectly provide any consulting or other services to any of the Five Competitors anywhere in the world. If one or more of the Five Competitors acquire one another, this Section 2.1 shall remain in effect through the end of the time period described above for each of the resulting successors to the Five Competitors. If one of the Five Competitors acquires Employee's then current employer, that acquisition will not result in a violation of this Section 2.1 (e.g. Employee may continue to work for that employer or its successor). If another company buys one of the Five Competitors, that acquisition and this Section 2.1 will not prohibit Employee from working for the combined company.

2.2 Covenant Not To Compete—25 Clients/Prospects. Employee covenants and agrees that throughout the one year period after the date of this Release/Restrictive Covenant, Employee shall not: (a) directly solicit any of the following clients or prospects of the Company [Company will fill in names of 25 clients and/or prospects of the Company] (collectively referred to as the "25 Clients/Prospects") with the purpose of inducing the 25 Clients/Prospects to diminish any business conducted or to be conducted with the Company or (b) directly provide any employment, consulting or other services to any of the 25 Clients/Prospects anywhere in the world. If one or more of the 25 Clients/Prospects acquire one another, this Section 2.2 shall remain in effect through the end of the time period described above for each of the resulting successors to the 25 Clients/Prospects. If one of the 25 Clients/Prospects acquires Employee's then current employer, that acquisition will not result in a violation of this Section 2.2 (e.g. Employee may continue to work for that employer or its successor). If another company buys one of the 25 Clients/Prospects, that acquisition and this Section 2.2 will not prohibit Employee from working for the combined company.

2.3 Covenant Not To Hire or Solicit The Company Employees. Employee covenants and agrees that throughout the one year period after the date of this Release/Restrictive Covenant, Employee shall not directly or indirectly, hire or solicit any the Company employees for the purpose of hiring them or inducing them to leave employment at the Company.

2.4 Remedies. Employee acknowledges that the violation of this Section 2 will cause irreparable harm to the Company and agrees that, in addition to any other relief afforded by law, an injunction against any violation of this Section 2 may issue against Employee. Both damages and injunction shall be proper modes of relief and are not alternative remedies for Employee's violation of this Section 2. If the Company commences any action in equity to specifically enforce any of its rights under this Section 2, Employee waives and agrees not to assert the defense that The Company has an adequate remedy at law.

3. Rescission. Employee has been informed of Employee's right to rescind this Release/Restrictive Covenant by written notice to Company within fifteen (15) calendar days after the execution of this Release/Restrictive Covenant. Employee has been informed and understands that any such rescission must be in writing and delivered to Company (to the attention of the Corporate Secretary) by hand or sent by mail within the 15-day time period. If delivered by mail, the rescission must be: (1) postmarked within the applicable period and (2) sent by certified mail, return receipt requested.

Employee understands that Company will have no obligations under the Employment Agreement in the event a notice of rescission by Employee is timely delivered, and, in the event Employee rescinds this Release/Restrictive Covenant, Employee agrees to repay to Company any payments made to Employee or benefits conferred upon him pursuant to Article IV of the Employment Agreement prior to the date of rescission.

4. Acceptance Period; Advice of Counsel. The terms of this Release/Restrictive Covenant will be open for acceptance by Employee for a period of 21 days during which time Employee may consider whether or not to accept this Release/Restrictive Covenant. Employee agrees that changes to this Release/Restrictive Covenant, whether material or immaterial, will not restart this acceptance period. Employee is hereby advised to seek the advice of an attorney regarding this Release/Restrictive Covenant.

5. Binding Agreement. This Release/Restrictive Covenant shall be binding upon, and inure to the benefit of, Employee and Company and their respective successors and permitted assigns.

6. Representation. Employee hereby acknowledges and states that Employee has read this Release/Restrictive Covenant. Employee further represents that this Release/Restrictive Covenant is written in language that is understandable to Employee, that Employee fully appreciates the meaning of its terms, and that Employee enters into this Release/Restrictive Covenant freely and voluntarily.

IN WITNESS WHEREOF, Employee, after due consideration, has authorized, executed and delivered this Release/Restrictive Covenant all as of the date first written above.

Robert A. Schriesheim

STOCK OPTION AGREEMENT**LAWSON SOFTWARE, INC.
1996 STOCK INCENTIVE PLAN**

1. **Option Grant and Option Exercise Price.** Pursuant to the Lawson Software, Inc. 1996 Stock Incentive Plan (the "Plan"), Lawson Software, Inc., a Delaware corporation (the "Company") grants to the participant ("Participant") whose name is specified on the Certificate of Stock Option Grant on the Salomon Smith Barney website at www.benefitaccess.com (the "Certificate"), an option to purchase shares of common stock ("Common Stock") of the Company as follows:

The Company grants to Participant an option (the "Option" or "Stock Option") to purchase the number of full shares of Common Stock shown on the Certificate (the "Shares") at an exercise and purchase price in United States dollars (the "Grant Price") per Option Share equal to the Grant Price listed on the Certificate (which is the closing price for the Common Stock on Nasdaq (symbol: LWSN) on the trading day immediately preceding the Grant Date), subject to the terms and conditions set forth in the Plan, this Stock Option Agreement ("Agreement") and the Certificate. The Grant Date of this Stock Option is stated on the Certificate. The Option will be in effect commencing on the Grant Date and terminating on the Grant Expiration Date listed on the Certificate ("Grant Expiration Date") or such earlier date and time described in this Agreement (the "Option Period"). This Option is an "Incentive Stock Option (ISO)" or a "Nonqualified Stock Option (NQ)," as identified on the Certificate under "Type of Stock Option."

2. **Option Subject to Plan; Definitions.** This Stock Option and its exercise are subject to the terms and conditions of the Plan, and the terms of the Plan shall control to the extent not otherwise inconsistent with the provisions of this Agreement. This Stock Option is subject to any rules promulgated pursuant to the Plan by the Board of Directors of the Company or the Committee. The capitalized terms not otherwise defined in this Agreement have the same meanings assigned to them in the Plan.

2.1 The term "Cause" means Termination of Participant's Service initiated by the Company or its Subsidiaries because of: (1) if Participant has entered into any written and executed contract(s) with the Company or its Subsidiaries, any material breach by Participant of such contract that has a material adverse effect on the Company or any Subsidiary (as reasonably determined by the Company) and which is not or cannot reasonably be cured within 10 days after written notice from the Company to Participant; (2) any material violation by Participant of the Company's or a Subsidiary's policies, rules or regulations that has a material adverse effect on the Company or any Subsidiary (as reasonably determined by the Company) and which is not or cannot be cured within 10 days after written notice from the Company to Participant; (3) commission of any act of fraud, embezzlement or dishonesty by Participant that is materially injurious to the Company or any Subsidiary (as reasonably determined by the Company); (4) any other intentional misconduct by Participant adversely affecting the business or affairs of the Company or any Subsidiary in any material manner (as reasonably determined by the Company); or (5) intentional or willful failure of Participant to perform Participant's

responsibilities under any then current employment agreement between Participant and Company, other than as a result of permitted leave of absence, vacation, injury or illness.

2.2 The term “Change of Control Transaction” means (1) the closing of a tender offer or exchange offer for the ownership of 50% or more of the outstanding voting securities of the Company, (2) the Company shall have entered into a definitive agreement with respect to a tender offer, exchange offer or merger, consolidation or other business combination with another corporation and as a result of such tender offer, exchange offer, merger, consolidation or combination 50% or fewer of the outstanding voting securities of the surviving or resulting corporation are owned in the aggregate by the former stockholders of the Company, other than affiliates (within the meaning of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation, (3) the Company shall have entered into a definitive agreement to sell substantially all of its assets to another corporation which is not a direct or indirect wholly owned Subsidiary of the Company, (4) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date of this Agreement) of the Exchange Act, shall acquire 50% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record) (for purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) as in effect on the date of this Agreement) pursuant to the Exchange Act, (5) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company, or (6) individuals who constitute the Company’s Board of Directors on the date of this Agreement (the “Incumbent Board”) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least 50% of the directors comprising the Incumbent Board shall be, for purposes of this clause (6), considered as though such person were a member of the Incumbent Board. The definition of a “Change in Control” in the 1996 Stock Incentive Plan shall not apply to this Stock Option.

2.3 The term “Disability” means Participant’s permanent disability as defined under any long term disability plan of the Company, or in the absence of such plan, the inability of Participant, due to illness or injury, to substantially perform Participant’s duties (after taking into account any reasonable accommodation required by the Americans with Disabilities Act) for a period of at least 180 consecutive days. Termination of Participant’s Service because of a permanent disability as defined under any retirement plan of the Company or its Subsidiaries. The determination of a Disability shall be based on competent medical opinion.

2.4 The term “Fair Market Value” has the meaning described in Section 6 of the Plan.

2.5 The term “Good Reason” means: (1) Company effects a material diminution of Participant’s duties or reporting responsibilities or a diminution of Participant’s title of Chief Financial Officer of the Company; (2) the failure by Company, or its successor, if any, to pay compensation or provide benefits or perquisites to Participant as and when required; or (3) any material breach by Company of any Employment Agreement between the Company and Participant.

2.6 The term “Retirement” means Termination of Participant’s Service (1) at or after age 55 provided Participant has been employed by the Company or its Subsidiaries for at least ten years or (2) at or after age 62.

2.8 The term “Subsidiary” or “Subsidiaries” means any corporation at least a majority of whose securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the occurrence of a contingency) is at the time owned by the Company and/or one (1) or more Subsidiaries.

2.9 The term “Termination of Participant’s Service” means the last day of Participant’s regular full time or part time employment with the Company and its Subsidiaries.

3. Vesting and Acceleration of Vesting. Except as specifically provided in this Agreement and the Plan, this Stock Option will vest and first become exercisable on the respective vesting dates specified in the Certificate, but only if Participant has at all times been a regular full time or part time employee of the Company or any Subsidiary from the Grant Date to the applicable vesting date. Vested Option Shares may be exercised and purchased during the Option Period, until termination under Section 4 below. No vesting of the Option shall occur after Termination of Participant’s Service, except only to the extent described in Sections 3.1, 3.2, 3.3 or 3.4 below.

3.1 Automatic 100% Acceleration of Vesting Upon Death, Disability or Retirement. If there is a Termination of Participant’s Service because of Participant’s death, Disability or Retirement, all conditions of vesting will be assumed to have been met immediately before such death, Disability or Retirement, and Participant or Participant’s estate will have the right to exercise one hundred percent (100%) of the number of Shares remaining under the Option, whether or not vested, during the applicable time period in Section 4 below. If Termination of Participant’s Service is due to death, Disability or Retirement, the acceleration of vesting under this Section 3.1 will be deemed to have occurred prior to such Termination of Participant’s Service.

3.2 Automatic 100% Acceleration of Vesting if Options are Terminated In Connection with a Change in Control Transaction. If the Option is to be terminated upon the completion of a Change in Control Transaction, then (i) all conditions of vesting will be assumed to have been met for one hundred (100%) of the then current total unvested Option Shares and (ii) Participant will have the right to exercise all vested Option Shares during the applicable time period in Section 4 below. The acceleration of vesting under this Section 3.2 will be deemed to have occurred immediately before the completion of the Change in Control Transaction.

3.3 Automatic 100% Acceleration of Vesting Under Certain Conditions Within Two Years After a Change in Control Transaction. If within two years after the completion of a Change in Control Transaction, there is a Termination of Participant’s Service initiated by the Company or any Subsidiary (or successor) other than for Cause or by the Participant for Good Reason, then (i) all conditions of vesting will be assumed to have been met for one hundred (100%) of the then current total unvested Option Shares and (ii) Participant will have the right to exercise all vested Option Shares during the applicable time period in Section 4 below. The acceleration of vesting under this Section 3.3 will be deemed to have occurred immediately before Termination of Participant’s Service.

3.4 One Year Acceleration of Vesting. The vesting of the Option Shares shall be accelerated by one year upon any of the following events: (1) Termination of Participant's Service by the Company, other than for Cause and not within two years after a Change of Control Transaction or (2) Termination of Participant's Service by Participant for Good Reason and not within two years after a Change of Control Transaction.

3.5 Leave of Absence. The Company's leave of absence procedure concerning stock options, that is in effect as of the date of this Agreement, will also govern the vesting of the Option during a Company approved leave of absence.

4. Termination and Forfeiture. The Stock Option, whether or not vested, automatically expires at 5:00 p.m. United States Central Time on the Grant Expiration Date, unless terminated on an earlier date as described in this Agreement or the Plan. No vesting of the Stock Option shall occur after the date of Termination of Participant's Service and all such unvested Option Shares will be forfeited as of 5:01 p.m. United States Central on the date of Termination of Participant's Service. The unexercised portion of the Stock Option that is vested will automatically terminate and be forfeited at the first of the following to occur:

- (1) 5:00 p.m. United States Central Time on the date of Termination of Participant's Service initiated by the Company or any Subsidiary for Cause;
- (2) 5:00 p.m. United States Central Time on the date that is six months after Termination of Participant's Service by for any reason or no reason, or by the Company other than for Cause;
- (3) 5:00 p.m. United States Central Time on the date that is six months after the date of Termination of Participant's Service due to death, Disability or Retirement; or
- (4) 5:00 p.m. United States Central Time on the Grant Expiration Date.

5. No Fractional Shares. This Stock Option may be exercised only in whole Shares and not fractional Shares. Any fraction of a Share that would otherwise vest on any vesting date will be rounded down to the nearest whole Share.

6. Manner of Exercise. Before the end of the Option Period, this Stock Option may be exercised only by Participant (or by Participant's guardian or legal representative, or by Participant's estate (if Participant is deceased)) up to the extent then vested and exercisable by delivering to the Company's stock option administrator an irrevocable notice of exercise in the form required by the Company. The notice of exercise shall state the number of Shares for which the Option is being exercised and shall be accompanied by payment in full of the Grant Price for those Shares (under Section 7 below) and applicable tax withholdings (under Section 10 below).

7. Payment of Grant Price. Participant may pay the Grant Price by wire transfer or check (bank check, certified check or personal check) or by delivering to the Company for cancellation, in accordance with the rules of the Committee, shares of Common Stock which have a Fair Market Value in United States dollars equal to the Grant Price and which either (i) were purchased on a national stock exchange or on the NASDAQ NMS system or (ii) have been issued and outstanding more than six months. The Grant Price is payable in United States dollars. Subject to the Company's approval, Participant may also pay the Grant Price by having it delivered to the Company in cash from a broker, dealer or other "creditor" as defined in Regulation T issued by the Board of Governors of the Federal Reserve System following delivery

by the Participant to the Company of instructions in a form acceptable to the Company regarding delivery to such broker, dealer or other creditor of that number of shares of Common Stock with respect to which the Stock Option is exercised.

8. Delivery of Shares. The Company will deliver to Participant the Shares (either in certificate or electronic form as requested by Participant) promptly after proper exercise of the Option and receipt of the Grant Price and applicable tax withholdings. Notwithstanding any provision in this Agreement to the contrary, the obligation of the Company to deliver Shares is subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the Stock Option or the issuance or purchase of Shares thereunder, then the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

9. Tax Requirements for Incentive Stock Options; Disqualifying Disposition. This Section 9 will apply only if this Stock Option is identified as an Incentive Stock Option or ISO on the Certificate. If this Section 9 applies, then subject to the provisions of the Plan, this Stock Option is an Incentive Stock Option. To the extent the number of Shares exceeds the limit set forth in Section 4 of the Plan, such Shares shall be deemed granted pursuant to a Nonqualified Stock Option. In such event, then unless otherwise indicated by Participant in the notice of exercise pursuant to Section 6 above, upon any exercise of this Stock Option, the number of exercised Shares that shall be deemed to be exercised pursuant to an Incentive Stock Option shall equal the total number of Shares so exercised multiplied by a fraction, (a) the numerator of which is the number of unexercised Option Shares that could then be exercised pursuant to an Incentive Stock Option and (b) the denominator of which is the then total number of unexercised Option Shares that could then be exercised. If Common Stock acquired upon exercise of this Stock Option is disposed of by Participant in a "Disqualifying Disposition," such Participant shall notify the Company in writing within 30 days after such disposition of the date and terms of such disposition. For purposes hereof, "Disqualifying Disposition" means a disposition of Common Stock that is acquired upon the exercise of an Incentive Stock Option prior to the expiration of either two years from the Grant Date of such Incentive Stock Option or one year from the transfer of Shares to Participant pursuant to the exercise of such Incentive Stock Option. If a Disqualifying Disposition occurs, the tax requirements described in Section 10 will apply.

10. Tax Requirements and Withholdings for Nonqualified Stock Options. This Section 10 will apply only if this Stock Option is identified as a Nonqualified Stock Option or NQ on the Certificate or is considered a Nonqualified Stock Option under Section 9 above. In order to provide the Company and its Subsidiaries with the opportunity to claim the benefit of any income tax deduction in any jurisdiction which may be available to it upon the exercise of the Nonqualified Stock Option, and in order to comply with all applicable income tax laws or regulations of any applicable country, state or other jurisdiction, the Company and its Subsidiaries may take such action as it deems appropriate to ensure that, if necessary, all applicable payroll, withholding, income, NIC or other taxes (of any applicable country, state or other jurisdiction) are withheld or collected from Participant. Participant may elect to satisfy Participant's minimum income tax withholding obligations under such laws or regulations upon exercise of the Option by (i) paying that amount by wire transfer or check (bank check, certified check or personal check), (ii) having the Company or its Subsidiaries withhold a portion of the shares of Shares otherwise to be delivered upon exercise of such Option having a Fair Market

Value in United States dollars (on the date of exercise of Option) equal to the minimum amount of such taxes required to be withheld on such exercise, in accordance with the rules of the Committee, or (iii) delivering to the Company for cancellation, in accordance with the rules of the Committee, shares of Common Stock which have a Fair Market Value equal to such tax withholdings and which either (a) were purchased on a national stock exchange or on the NASDAQ NMS system or (b) have been issued and outstanding more than six months. The Company may, at its discretion, require Participant to pay the withholding taxes under clause (i) above in lieu of the alternatives in clauses (ii) or (iii) above.

11. Investment Representation. Unless the Common Stock is issued to Participant in a transaction registered under applicable federal and state securities laws, Participant represents and warrants to the Company that all Common Stock which may be purchased hereunder will be acquired by Participant for investment purposes for Participant's own account and not with any intent for resale or distribution in violation of federal or state securities laws. Unless the Common Stock is issued to Participant in a transaction registered under the applicable federal and state securities laws, all certificates issued with respect to the Common Stock shall bear an appropriate restrictive investment legend.

12. Impact on Employment Status. This Agreement, the Certificate and the Plan are not an employment contract. Nothing contained in this Agreement, the Certificate or the Plan shall confer on Participant any right to continue in the employ of the Company or any Subsidiary or other affiliate of the Company or affect in any way the right of the Company or any Subsidiary or other affiliate to terminate the employment of Participant at any time.

13. Adjustments. In the event of any stock split, stock dividend, recapitalization or combination of shares by the Company after the Grant Date, the number of Shares subject to the Option and the Grant Price per Share shall be equitably adjusted in the same manner as the outstanding shares of Common Stock, in accordance with the rules of the Committee. The number of Option Shares designated in the Certificate has been adjusted for all stock splits that were effective before the Grant Date.

14. Non-Transferability of Option. This Stock Option is not assignable or transferable by Participant except by will or by the laws of descent and distribution.

15. Consent to Internal Use of Personal Data. Participant consents to the Company's and its Subsidiaries' (and the Company's stock option administrator) receiving and using personal data related to Participant for employment-related purposes only and for gathering and making required reports to government authorities.

15. No Right of Future Stock Option Grants. Nothing contained in this Agreement, the Certificate or the Plan shall confer on Participant any right to receive any additional stock options in the future from the Company, Subsidiary or any other affiliate of the Company or affect in any way the right of the Company, Subsidiary or any other affiliate to terminate the granting of stock options at any time.

16. Interpretation of Terms; General. The Committee shall interpret the terms of the Option and this Agreement, the Certificate and Plan and all determinations shall be final and binding. The Option and this Agreement, the Certificate and Plan (1) are governed by the laws of the State of Minnesota, (2) may be amended only in writing, signed by an executive officer of the Company, and (3) supersede any other verbal or written agreements or representations

concerning the Option.

17. Official Language. The official language of the Option and this Agreement, the Certificate and Plan is English. Documents or notices not originally written in English shall have no effect until they have been translated into English, and the English translation shall then be the prevailing form of such documents or notices. Any notices or other documents required to be delivered to the Company (or stock option administrator) under this Notice, shall be translated into English, at Participant's expense, and provided promptly to the Company in English (to the attention of the Company's Corporate Secretary). The Company may also request an untranslated copy of such documents.

18. Signature and Validity. An executive officer of the Company has signed this Agreement electronically on behalf of the Company. The Participant is deemed to have signed this Agreement and agreed to all of its terms by having electronically indicated Participant's acceptance and agreement on the Certificate on the Salomon Smith Barney website at www.benefitaccess.com. If there is any discrepancy between the number of Option Shares shown in the Certificate and the number shown in the records of the Company's Corporate Secretary, the records of the Company's Corporate Secretary shall prevail.

Lawson Software, Inc.

By _____
Harry Debes,
Chief Executive Officer

Confirmed and Agreed to:

Robert A. Schriesheim,
Dated: October 5, 2006

**Certification of Chief Executive Officer
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002**

I, Harry Debes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lawson Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures or cause such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect the registrant's internal control and financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 10, 2006

/s/ HARRY DEBES

Harry Debes
President and Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002**

I, Stefan B. Schulz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lawson Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures or cause such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect the registrant's internal control and financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 10, 2006

/s/ STEFAN B. SCHULZ
Stefan B. Schulz
*Acting Chief Financial Officer,
Senior Vice President and Global Controller*

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Lawson Software, Inc. (the "Company") on Form 10-Q for the period ended August 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harry Debes, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HARRY DEBES

Harry Debes

President and Chief Executive Officer

October 10, 2006

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Lawson Software, Inc. (the "Company") on Form 10-Q for the period ended August 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stefan B. Schulz, Acting Chief Financial Officer, Senior Vice President and Global Controller, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEFAN B. SCHULZ

Stefan B. Schulz

Acting Chief Financial Officer,

Senior Vice President and Global Controller

October 10, 2006
