

INTELLISYNC CORP
Form 10-Q
December 09, 2004
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FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended October 31, 2004

OR

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

For the transition period from to

Commission File Number 0-21709

INTELLISYNC CORPORATION

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

77-0349154
(I.R.S. Employer
Identification Number)

2550 North First Street, San Jose, California 95131

(Address of principal executive office and zip code)

(408) 321-7650

(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 the number of shares outstanding of each of the issuer's classes of common stock, as of December 6, 2004: 66,217,675

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(In thousands, except per share data)

(Unaudited)

	October 31, 2004	July 31, 2004
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,479	\$ 12,991
Short-term investments	40,204	40,657
Accounts receivable, net of allowance for doubtful accounts of \$525 and \$470	10,859	10,380
Inventories	53	69
Other current assets	2,182	2,485
	<u> </u>	<u> </u>
Total current assets	65,777	66,582
Property and equipment, net	2,313	1,540
Goodwill	65,310	65,288
Other intangible assets, net	28,073	29,828
Restricted cash	3,616	4,032
Other assets	2,856	3,084
	<u> </u>	<u> </u>
Total assets	<u>\$ 167,945</u>	<u>\$ 170,354</u>
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 2,453	\$ 1,562
Accrued liabilities	6,487	7,482
Current portion of obligations under capital lease	142	51
Deferred revenue	5,548	5,794
	<u> </u>	<u> </u>
Total current liabilities	14,630	14,889
Obligations under capital lease	325	144
Convertible senior notes	59,396	58,443
Other liabilities	1,350	2,487
	<u> </u>	<u> </u>

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Total liabilities	75,701	75,963
	<u> </u>	<u> </u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000 shares authorized; none issued and outstanding at October 31, 2004 and July 31, 2004		
Common stock, \$0.001 par value; 160,000 shares authorized; 66,198 and 65,592 shares issued and outstanding at October 31, 2004 and July 31, 2004		
	66	66
Additional paid-in capital	226,543	225,832
Accumulated deficit	(134,622)	(131,116)
Accumulated other comprehensive loss	257	(391)
	<u> </u>	<u> </u>
Total stockholders' equity	92,244	94,391
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 167,945	\$ 170,354
	<u> </u>	<u> </u>

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

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(In thousands, except per share data)

(Unaudited)

	Three Months Ended October 31,	
	2004	2003
Revenue		
License	\$ 7,825	\$ 5,270
Services	4,477	2,746
Total revenue	12,302	8,016
Cost and operating expenses:		
Cost of revenue (includes non-cash stock compensation of \$(16) and \$121)	2,341	1,634
Amortization of developed and core technology	1,156	153
Research and development (includes non-cash stock compensation of \$(3) and \$46)	3,329	2,193
Sales and marketing (includes non-cash stock compensation of \$(34) and \$291)	5,589	3,280
General and administrative (includes non-cash stock compensation of \$(12) and \$798)	2,049	2,385
Amortization of other intangibles	1,046	106
In-process research and development		469
Other charges		76
Total cost and operating expenses	15,510	10,296
Operating loss	(3,208)	(2,280)
Other income (expense):		
Interest income	236	131
Interest expense	(240)	
Other, net	(179)	(5)
Total other income (expense)	(183)	126
Loss before income taxes	(3,391)	(2,154)
Provision for income taxes	(115)	(107)
Net loss	\$ (3,506)	\$ (2,261)
Basic and diluted net loss per common share	\$ (0.05)	\$ (0.05)
Shares used in computing basic and diluted net loss per common share	64,418	48,266

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

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INTELLISYNC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended October 31,	
	2004	2003
Cash flows from operating activities:		
Net loss	\$ (3,506)	\$ (2,261)
Adjustments to reconcile net loss to net cash used in operating activities:		
In-process research and development		469
Allowance for doubtful accounts	61	40
Depreciation	278	238
Amortization	2,202	259
Amortization of debt issuance costs	159	
Non-cash stock compensation	(65)	1,256
Changes in operating assets and liabilities:		
Accounts receivable	(540)	(750)
Inventories	16	(140)
Other current assets	791	215
Other assets	40	(323)
Accounts payable	891	(206)
Accrued liabilities	(1,179)	(2,148)
Deferred revenue	(246)	63
	<u>(1,098)</u>	<u>(3,282)</u>
Net cash used in operating activities	(1,098)	(3,282)
Cash flows from investing activities:		
Purchase of property and equipment	(755)	(147)
Purchase of short term investments	(1,028)	(4,073)
Proceeds from the sales of short-term investments	500	2,175
Proceeds from the maturities of short-term investments	1,000	1,000
Decrease in restricted cash	416	
	<u>133</u>	<u>(1,045)</u>
Net cash provided by (used in) investing activities	133	(1,045)
Cash flows from financing activities:		
Debt issuance cost	(89)	
Principal payments on capital lease	(24)	
Proceeds upon exercise of stock options	161	1,307
Proceeds from ESPP shares issued	300	147
	<u>348</u>	<u>1,454</u>
Net cash provided by financing activities	348	1,454

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Effect of exchange rate changes on cash and cash equivalents	105	6
Net decrease in cash and cash equivalents	(512)	(2,873)
Cash and cash equivalents at beginning of period	12,991	7,842
Cash and cash equivalents at end of period	\$ 12,479	\$ 4,969

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 The Company and a Summary of its Significant Accounting Policies

The Company

Intellisync Corporation, Intellisync or the Company, develops, markets and supports desktop, enterprise and mobile carrier-class push-email, synchronization and systems management software that enables consumers, business professionals and information technology professionals to extend the capabilities of enterprise groupware and vertical applications, handheld organizers/computers, Web-enabled mobile phones, pagers and other wireless or wireline personal communications platforms. The Company's Identity Systems (formerly Search Software America) subsidiary develops, markets and supports global solutions that enhance an organization's ability to search, find, match, screen and group identity data within their computer systems and network databases.

Liquidity and Capital Resources

The Company has incurred losses and negative cash flows since inception. The Company incurred a net loss of approximately \$3,506,000 and negative cash flows from operations of approximately \$1,151,000 for the three months ended October 31, 2004. The Company's cash balances may decline further, although the Company believes that its existing cash resources, combined with revenues from continuing operations, will be adequate to fund its operations for at least the next 12 months. Failure to generate sufficient revenues or control spending could adversely affect the Company's ability to achieve its business objectives.

Basis of Presentation and Consolidation

The accompanying condensed consolidated financial statements of Intellisync as of October 31, 2004 and for the three months ended October 31, 2004 are unaudited and reflect all normal recurring adjustments which are, in the opinion of management, necessary for their fair presentation. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2004. The condensed consolidated balance sheet as of July 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The results of operations for the interim period ended October 31, 2004 are not necessarily indicative of results to be expected for the full year.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

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Certain amounts in prior periods have been reclassified to conform to the current presentation.

Use of Estimates and Assumptions

The preparation of the condensed consolidated financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to provision for doubtful accounts, channel inventory and product returns, valuation of intangibles, investments and other long-lived assets, restructuring accruals, license and services revenue recognition and contingencies. The Company bases its estimates on various factors and information which may include, but are not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third party

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professionals that are believed to be reasonable under the circumstances, the results of which form the basis for taking judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Revenue is derived from software licenses and related services, which include implementation and integration of software solutions, post contract support, training and consulting.

Transactions involving the sale of software products are accounted for under the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended by SOP No. 98-9, *Modification of 97-2, Software Revenue Recognition with Respect to Certain Transactions*. For contracts with multiple elements, and for which vendor-specific objective evidence of fair value for the undelivered elements exists, revenue is recognized for the delivered elements based upon the residual contract value as prescribed by SOP No. 98-9. The Company has accumulated relevant information from contracts to use in determining the availability of vendor-specific objective evidence and believes that such information complies with the criteria established in SOP No. 97-2 as follows: