NAVISITE INC
Form 10-Q
December 09, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 31, 2010

OR

o **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: 000-27597

NAVISITE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2137343**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Minuteman Road Andover, Massachusetts	**01810**
(Address of principal executive offices)	(Zip Code)

(978) 682-8300

(Registrant s telephone number, including area code)

None

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of December 3, 2010, there were 37,953,835 shares outstanding of the registrant s common stock, par value $.01 per share.

NAVISITE, INC.
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FOR THE QUARTER ENDED OCTOBER 31, 2010

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NAVISITE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value)

	October 31, 2010	July 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,605	$ 4,620
Accounts receivable, less allowance for doubtful accounts of $1,707 and $1,812 at October 31, 2010, and July 31, 2010, respectively	11,165	12,532
Unbilled accounts receivable	353	730
Prepaid expenses and other current assets	10,490	11,244
Total current assets	28,613	29,126
Property and equipment, net	29,299	29,914
Intangible assets	5,943	6,579
Goodwill	46,189	46,189
Other assets	3,818	4,039
Restricted cash	1,124	1,190
Total assets	$ 114,986	$ 117,037
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion	$ 4,583	$ 4,150
Capital-lease obligations, current portion	4,976	4,830
Accounts payable	5,379	7,379
Accrued expenses and other current liabilities	11,870	12,904
Deferred revenue, deferred other income and customer deposits	7,086	6,333
Total current liabilities	33,894	35,596
Capital-lease obligations, less current portion	2,583	3,505
Deferred tax liability	7,700	7,393
Other long-term liabilities	8,525	8,053
Note payable, less current portion	48,900	49,026
Total liabilities	101,602	103,573
Series A Convertible Preferred Stock, $0.01 par value; Authorized 5,000 shares; Issued and outstanding: 4,209 at October 31, 2010, and 4,087 at July 31, 2010	35,279	34,284
Commitments and contingencies (Note 11)		
Stockholders deficit:		
Common stock, $0.01 par value; Authorized 395,000 shares; Issued and outstanding: 36,995 at October 31, 2010, and 36,943 at July 31, 2010	370	369
Accumulated other comprehensive loss	(740)	(905)
Additional paid-in capital	485,775	485,817

Accumulated deficit	(507,300)	(506,101)
Total stockholders deficit	(21,895)	(20,820)
Total liabilities and stockholders deficit	$ 114,986	$ 117,037

See accompanying notes to condensed consolidated financial statements.

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NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per-share amounts)

	Three Months Ended	
	October 31, 2010	October 31, 2009
Revenue, net	$ 33,321	$ 30,469
Revenue, related parties	40	94
Total revenue, net	33,361	30,563
Cost of revenue	16,175	14,950
Depreciation and amortization	4,534	4,185
Total cost of revenue	20,709	19,135
Gross profit	12,652	11,428
Operating expenses:		
Selling and marketing	4,748	4,710
General and administrative	7,023	5,501
Total operating expenses	11,771	10,211
Income from operations	881	1,217
Other income (expense):		
Interest income	13	7
Interest expense	(1,671)	(2,527)
Other income (expense), net	(115)	98
Loss from continuing operations before income taxes and discontinued operations	(892)	(1,205)
Income taxes	(307)	(357)
Loss from continuing operations	(1,199)	(1,562)
Loss from discontinued operations		(822)
Net loss	(1,199)	(2,384)
Accretion of preferred-stock dividends	(995)	(899)
Net loss attributable to common stockholders	$ (2,194)	$ (3,283)
Basic and diluted net loss per common share:		
Loss from continuing operations attributable to common stockholders	$ (0.06)	$ (0.07)
Loss from discontinued operations		(0.02)
Net loss per common share attributable to common stockholders	$ (0.06)	$ (0.09)

Basic and diluted weighted average number of common shares outstanding		36,979		36,004
Stock-based compensation expense:				
Cost of revenue	$	204	$	294
Selling and marketing		163		175
General and administrative		488		402
Total stock-based compensation expense	$	855	$	871

See accompanying notes to condensed consolidated financial statements.

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NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended	
	October 31, 2010	October 31, 2009
Cash flows from operating activities:		
Net loss	$ (1,199)	$ (2,384)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,373	5,740
Stock-based compensation	855	871
Provision for bad debts	97	121
Deferred income-tax expense	307	491
Impairment costs associated with abandoned lease	63	
Mark to market for interest-rate cap	4	2
Loss on disposal of assets	6	
Changes in operating assets and liabilities:		
Accounts receivable	1,325	1,478
Unbilled accounts receivable	378	26
Prepaid expenses and other current assets, net	830	(1,652)
Long-term assets	414	143
Accounts payable	(2,028)	(1,397)
Accrued expenses, deferred revenue and customer deposits	(389)	2,336
Long-term liabilities	511	(1,170)
Net cash provided by operating activities	6,547	4,605
Cash flows from investing activities:		
Purchase of property and equipment	(3,487)	(4,018)
Capitalized software development costs	(214)	
Releases of restricted cash	18	267
Net cash used for investing activities	(3,683)	(3,751)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock-purchase plan	98	427
Proceeds from notes payable	449	500
Repayment of notes payable	(142)	(7,217)
Payments on capital-lease obligations	(1,326)	(924)
Net cash used for financing activities	(921)	(7,214)
Effect of exchange-rate changes on cash and cash equivalents	42	4
Net increase (decrease) in cash and cash equivalents	1,985	(6,356)
Cash and cash equivalents, beginning of period	4,620	10,534
Cash and cash equivalents, end of period	$ 6,605	$ 4,178

Supplemental disclosure of cash-flow information:		
Cash paid for interest	$ 1,670	$ 3,326
Supplemental disclosure of non-cash financing transactions:		
Equipment and leasehold improvements acquired under capital leases	$ 550	$ 1,462
Accretion of preferred stock	$ 995	$ 899

See accompanying notes to condensed consolidated financial statements.

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Description of Business

NaviSite, Inc. (**NaviSite**, the **Company**, **we**, **us** or **our**), provides IT hosting, outsourcing and professional se Leveraging our set of technologies and subject-matter expertise, we deliver cost-effective, flexible solutions that provide responsive and predictable levels of service for our customers businesses. Over 1,300 companies across a variety of industries rely on NaviSite to build, implement and manage their mission-critical systems and applications. NaviSite is a trusted advisor committed to ensuring the long-term success of our customers business applications and technology strategies. At October 31, 2010, NaviSite had 10 state-of-the-art data centers in the United States and United Kingdom and two redundant network operations centers (**NOC**) located in India and Andover, Massachusetts. Substantially all revenue is generated from customers in the United States.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts and operations of NaviSite, Inc., and our wholly-owned subsidiaries. These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the **SEC**) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (**U.S. GAAP**) for complete financial statements. You should therefore read them in conjunction with the audited consolidated financial statements included in our annual report on Form 10-K filed with the SEC on October 22, 2010. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of our financial position, results of operations, comprehensive income and cash flows at the dates and for the periods indicated. The results of operations for the three months ended October 31, 2010, are not necessarily indicative of the results expected for the remainder of the fiscal year ending July 31, 2011.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us 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 financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Significant estimates that we made include the useful lives of fixed assets and intangible assets, the recoverability of long-lived assets, the collectability of receivables, the determination and valuation of goodwill and acquired intangible assets, the fair value of preferred stock, the determination of revenue and related revenue reserves, the determination of stock-based compensation and the determination of the deferred-tax-valuation allowance.

(c) Revenue Recognition

Revenue, net, consists of monthly fees for application-management services, managed-hosting solutions, co-location and professional services. Reimbursable expenses charged to clients are included in revenue, net, and cost of revenue. Application management, managed-hosting solutions and co-location services are billed and recognized as revenue over the term of the contract, generally one to five years. Installation and up-front fees associated with application management, managed-hosting solutions and co-location services are billed at the time that we provide the installation service and recognized as revenue over the longer of the term of the related contract or the expected customer life. The direct and incremental costs associated with installation and setup activities are capitalized and expensed over the related contract. Payments received in advance of providing services are deferred until the period such services are delivered.

Revenue from professional services is recognized as services are delivered, for time- and materials-type contracts, and using the percentage-of-completion method, for fixed-price contracts. For fixed-price contracts, progress towards completion is measured by comparing the total hours incurred on the project to date to the total estimated hours required upon completion of the project. When current contract estimates indicate that a loss is probable, a provision

is made for the total anticipated loss in the current period. Contract losses are determined to be the amount by which the estimated service-delivery costs of the contract exceed the estimated revenue that will be generated by the contract. Unbilled accounts receivable represent revenue for services performed that have not yet been billed as of the balance-sheet date. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue-recognition criteria are met.

Effective August 1, 2009, we adopted Accounting Standards Update (**ASU**) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends FASB Accounting Standards Codification (**ASC**) Topic 605, *Revenue Recognition*. ASU 2009-13 amends FASB ASC Topic 605 to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence, if available, (2) third-party evidence, if vendor-specific objective evidence is not available, and (3) estimated selling price, if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements.

In accordance with ASU 2009-13, we allocate arrangement consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using vendor-specific objective evidence (**VSOE**), if it exists; otherwise, we use third-party evidence (**TPE**). If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (**ESP**).

VSOE is generally limited to the price charged when the same or similar product is sold separately. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range, as defined by us.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. It may be difficult for us to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE.

If we are unable to establish selling price using VSOE or TPE, and the order was received or materially modified after our ASU 2009-13 implementation date of August 1, 2009, we will use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, we consider the cost to produce or provide the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts or services, our ongoing pricing strategy and policies, the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold.

We analyze the selling prices used in our allocation of arrangement consideration at a minimum on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting under the guidance of ASU 2009-13 if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We consider a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to delivered products.

Deliverables not meeting the criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting.

(d) Capitalized Software Development Costs

The Company capitalizes software development costs incurred after a product s technological feasibility has been established and before it is available for general use. Amortization of capitalized software costs commences once the software is available for general use and is computed based on the straight-line method over the estimated economic life of the software products. Software development costs qualifying for capitalization was $0.2 million for the three months ended October 31, 2010. The amortization expense recognized in the quarter ended October 31, 2010 was not significant. There were no software development costs incurred in the three months ended October 31, 2009.

(e) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during the reporting period from transactions and other events and circumstances from non-owner sources. We record the components of comprehensive income (loss), primarily foreign-currency-translation adjustments, in our condensed consolidated balance sheets as a component of stockholders deficit, Accumulated other comprehensive loss. For the three months ended October 31, 2010 and 2009, comprehensive loss totaled approximately $1.0 million and $2.3 million, respectively.

(f) Basic and Diluted Net Loss per Common Share

Basic net loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed using the weighted average number of common and dilutive common-equivalent shares outstanding during the period. We utilize the treasury-stock method for options, warrants and non-vested shares and the if-converted method for convertible preferred stock and notes, unless such amounts are anti-dilutive.

The following table sets forth common-stock equivalents that are not included in the calculation of diluted net loss per share available to common stockholders because to do so would be anti-dilutive for the periods indicated.

	Three Months Ended October 31	
	2010	**2009**
Common stock options	1,158,335	575,126
Common stock warrants	1,196,382	1,194,228
Non-vested stock	176,228	189,135
Series A convertible preferred stock	4,279,293	3,836,608
ESPP	12,932	53,410
Total	6,823,170	5,848,507

(g) Segment Reporting

We currently operate in one segment, managed-IT services. Our chief operating decision-maker reviews financial information at a consolidated level.

Product and Services Data:

We derive our revenue from managed-IT services, professional services, and America s Job Exchange, our employment-services website (**AJE**). The following is a summary of revenue for the three months ended October 31, 2010 and 2009:

	Three Months Ended October 31,	
	2010	**2009**
	(In thousands)	
Managed-IT services	$ 32,205	$ 29,085
Professional services	414	953
AJE	742	525
Total revenue	$ 33,361	$ 30,563

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Geographic Data

Total assets located outside of the United States were 6% and 5% of total assets as of October 31, 2010 and July 31, 2010, respectively. Long-lived assets located outside of the United States were 3% and 2% of total long-lived assets at October 31, 2010 and July 31, 2010, respectively, or $2.3 million and $2.2 million.

Revenue for the three months ended October 31, 2010 and 2009 from customers located in the United Kingdom, was 10%, and 11%, respectively, of total revenue after taking into consideration the impact of discontinued operations in three months ended October 31, 2009. In the following table, revenue is determined based on the contracting location:

	Three Months Ended October 31,	
	2010	2009
	(In thousands)	
United States	$ 29,897	$ 27,058
All other	3,464	3,505
Total revenue	$ 33,361	$ 30,563

Other than the United States and the United Kingdom, no individual country represented greater than 10% of total revenues in any of the periods presented.

(h) Recent Accounting Pronouncements

In November 2008 the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (**IFRS**). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (the **IASB**). Under the proposed roadmap, in fiscal 2015 we could be required to prepare financial statements in accordance with IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

(3) Reclassifications

Certain fiscal-year-2010 amounts have been reclassified to conform to the current-year presentation. During fiscal year 2010, the historical results of operations for our netASPx business and the two co-location data centers sold during fiscal year 2010 have been reclassified to discontinued operations for all periods presented in our consolidated statements of operations.

(4) Subsequent Events

Effective July 2009 we adopted the provisions of the FASB-issued SFAS No. 165, *Subsequent Events,* which is now part of FASB ASC 855, *Subsequent Events* (**FASB ASC 855**). FASB ASC 855 establishes general standards of accounting for, and disclosure of, events that occur after the balance-sheet date but before financial statements are issued or are available to be issued. In accordance with FASB ASC 855, we have evaluated subsequent events through the date of issuance of our consolidated financial statements and have determined that we did not have any material subsequent events.

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(5) Discontinued Operations

On February 19, 2010, we entered into an Asset Purchase Agreement (the **February 2010 Asset Purchase Agreement**) with Velocity Technology Solutions II, Inc. (**Velocity**), pursuant to which we sold substantially all of the assets related to our netASPx business, which is composed solely of the Lawson and Kronos application management and consulting business and the application management of and consulting with respect to ancillary software applications which provide additional functionality, features and/or benefits to the extent such ancillary software applications are used in conjunction with Lawson and/or Kronos applications.

The purchase price for the assets sold was $56.0 million and was subject to further adjustment pursuant to adjustments set forth in the February 2010 Asset Purchase Agreement. Velocity also assumed certain liabilities, including accounts payable, customer credits and liabilities with respect to certain agreements assumed. The sale resulted in a gain of $18.8 million on disposal of the discontinued operations. The gain was primarily comprised of $53.7 million in net cash proceeds inclusive of a working capital adjustment, and estimated realizable portion of certain escrow funds, net of transaction costs, offset by net tangible assets of the business of $6.4 million and write-off of specific goodwill and intangible assets attributable to the netASPx business of $17.6 million and $10.9 million, respectively. On August 18, 2010, we received notice from Velocity that they were making a claim against the February 2010 Asset Purchase Agreement and instructed the escrow agent to withhold distribution of the $4.0 million held in escrow until such claim is resolved. We believe that this claim is without merit and have filed a complaint to compel Velocity to release the escrow funds.

On March 31, 2010, we entered into an Asset Purchase Agreement (the **March 2010 Asset Purchase Agreement**) with Virtustream, Inc. and Virtustream DCS, LLC (together, **Virtustream**), pursuant to which we sold substantially all of the assets of two co-location data centers; one located in San Francisco, California and one located in Vienna, Virginia for a purchase price of $5.4 million. The sale of these two data centers resulted in a gain of $1.7 million. The gain was primarily comprised of cash proceeds and escrow funds, net of transaction costs, of $4.9 million offset by net tangible assets of the business of $0.4 million and the write-off of $2.8 million of goodwill.

Under both the February 2010 Asset Purchase Agreement and the March 2010 Asset Purchase Agreement, as of October 31, 2010, we remain liable for up to $25.6 million in future lease payments, subject to the new tenants defaulting on the leases. Under certain defined conditions, such obligation may be removed in the future. There was no default by the new tenant as of October 31, 2010.

In accordance with ASC 205-20, *Discontinued Operations* , both the netASPx business and the two data center operations have been reflected as discontinued operations for all periods presented in the Company s condensed consolidated statements of operations. Accordingly, the revenue, costs of revenue, expenses, applicable interest expense and income taxes have been broken out separately for these assets to determine the loss from discontinued operations from these sales. Operating results related to these discontinued operations for the three months ended October 31, 2009 were as follows (in thousands):

	October 31, 2009
Revenue	$ 6,245
Cost of revenue	5,101
Gross profit	1,144
Operating expenses	(334)
Interest expense	(1,450)
Loss from discontinued operations before income taxes	(640)
Income taxes	(182)
Loss from discontinued operations, as reported	$ (822)

Interest expense has been allocated to discontinued operations based upon the net amount of debt repaid as a result of the asset sales using the interest rate in effect during the reported periods.

The Company has elected not to reflect the discontinued operations separately within the consolidated statements of cash flows. As of July 31, 2010, all assets and liabilities related to these discontinued operations were eliminated from our balance sheet.

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(6) Property and Equipment

Property and equipment at October 31, 2010, and July 31, 2010, are summarized as follows:

	October 31, 2010	July 31, 2010
	(In thousands)	
Office furniture and equipment	$ 4,061	$ 4,085
Computer equipment	93,400	89,969
Software licenses	17,647	17,289
Leasehold improvements	13,644	14,068
	128,752	125,411
Less: Accumulated depreciation and amortization	(99,453)	(95,497)
Property and equipment, net	$ 29,299	$ 29,914

The estimated useful lives of our property and equipment are as follows: office furniture and equipment, five years; computer equipment, three years; software licenses, three years or the life of the license; and leasehold improvements, the lesser of the lease term or the asset s estimated useful life.

(7) Goodwill and Intangible Assets

	(In thousands)
Goodwill as of July 31, 2010	$ 46,189
Adjustments to goodwill	
Goodwill as of October 31, 2010	$ 46,189

Intangible assets, net, consisted of the following:

	October 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
Customer lists	$ 29,812	$ (25,139)	$ 4,673
Customer-contract backlog	3,400	(3,400)	
Developed technology	3,140	(2,180)	960
Vendor contracts	700	(700)	
Trademarks	670	(360)	310
Non-compete agreements	206	(206)	
Intangible assets, net	$ 37,928	$ (31,985)	$ 5,943

	July 31, 2010		
	Gross Carrying	Accumulated	Net Carrying

	Amount	Amortization	Amount
		(In thousands)	
Customer lists	$ 29,812	$ (24,667)	$ 5,145
Customer-contract backlog	3,400	(3,400)	
Developed technology	3,140	(2,046)	1,094
Vendor contracts	700	(700)	
Trademarks	670	(332)	338
Non-compete agreements	206	(204)	2
Intangible assets, net	$ 37,928	$ (31,349)	$ 6,579

Intangible-asset amortization expense for the three months ended October 31, 2010 and 2009, aggregated $0.6 million and $0.7 million, respectively. Intangible assets are being amortized over estimated useful lives ranging from two to eight years.

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The amount reflected in the table below for fiscal year 2011 includes year-to-date amortization. Amortization expense related to intangible assets for the next five years is projected to be as follows:

Year Ending July 31,	(In thousands)
2011	$ 2,538
2012	$ 2,393
2013	$ 903
2014	$ 726
2015	$ 19

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following: