

BITSTREAM INC
Form 10-Q
November 14, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2005

or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 0-21541

BITSTREAM INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or

04-2744890
(I.R.S. Employer Identification No.)

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organization)

245 First Street, 17th Floor, Cambridge, Massachusetts 02142-1270

(Address of principal executive offices)

Registrant's telephone number, including area code: (617) 497-6222

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

On November 10, 2005, there were 8,810,398 shares of Class A Common Stock, par value \$0.01 per share issued, including 125,809 issued and designated as treasury shares, and no shares of Class B Common Stock, par value \$0.01 per share, issued or outstanding.

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Table of Contents**BITSTREAM INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)****(Unaudited)**

	September 30, 2005	December 31, 2004
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,799	\$ 4,405
Accounts receivable, net of allowance of \$28 and \$26 at September 30, 2005 and December 31, 2004, respectively	1,166	962
Prepaid expenses and other current assets	213	233
	<u> </u>	<u> </u>
Total current assets	6,178	5,600
	<u> </u>	<u> </u>
Property and equipment, net	319	282
	<u> </u>	<u> </u>
Other assets:		
Restricted cash	200	250
Goodwill	727	727
Intangible assets	144	174
	<u> </u>	<u> </u>
Total other assets	1,071	1,151
	<u> </u>	<u> </u>
Total assets	\$ 7,568	\$ 7,033
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 576	\$ 278
Accrued expenses	864	1,199
Deferred revenue	1,021	792
	<u> </u>	<u> </u>
Total current liabilities	2,461	2,269
	<u> </u>	<u> </u>
Deferred rent	196	200
	<u> </u>	<u> </u>
Total liabilities	2,657	2,469
	<u> </u>	<u> </u>
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.01 par value Authorized - 6,000 shares Issued and outstanding- 0 at September 30, 2005 and December 31, 2004		
Common stock, \$0.01 par value Authorized - 30,500 shares Issued and outstanding- 8,684 at September 30, 2005 and 8,639 at December 31, 2004	88	88
Additional paid-in capital	32,890	32,789

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Accumulated deficit	(27,707)	(27,953)
Treasury stock, at cost; 126 shares as of September 30, 2005 and December 31, 2004	(360)	(360)
	<u> </u>	<u> </u>
Total stockholders' equity	4,911	4,564
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 7,568	\$ 7,033
	<u> </u>	<u> </u>

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

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BITSTREAM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Revenue:				
Software licenses	\$ 3,213	\$ 2,325	\$ 9,209	\$ 6,966
Services	618	447	1,826	1,343
Total revenue	3,831	2,772	11,035	8,309
Cost of revenue:				
Software licenses	1,053	808	3,139	2,285
Services	270	222	871	597
Cost of revenue	1,323	1,030	4,010	2,882
Gross profit	2,508	1,742	7,025	5,427
Operating expenses:				
Marketing and selling	742	590	2,183	1,965
Research and development	943	914	2,924	2,884
General and administrative	493	392	1,679	1,335
Total operating expenses	2,178	1,896	6,786	6,184
Operating income (loss)	330	(154)	239	(757)
Gain on investment in DiamondSoft, Inc.				91
Interest and other income, net	14	15	40	58
Income (loss) before provision for income taxes	344	(139)	279	(608)
Provision for income taxes	32	11	33	47
Net Income (loss)	\$ 312	\$ (150)	\$ 246	\$ (655)
Basic net income (loss) per share	\$ 0.04	\$ (0.02)	\$ 0.03	\$ (0.08)
Diluted net income (loss) per share	\$ 0.03	\$ (0.02)	\$ 0.03	\$ (0.08)

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Basic weighted average shares outstanding	8,676	8,551	8,655	8,495
Diluted weighted average shares outstanding	9,640	8,551	9,478	8,495

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BITSTREAM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 246	\$ (655)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	138	131
Amortization	60	69
Gain on Investment in DiamondSoft, Inc.		(91)
Changes in operating assets and liabilities:		
Accounts receivable	(204)	337
Prepaid expenses and other assets	20	(122)
Accounts payable	298	(281)
Accrued expenses	(335)	113
Deferred revenue	229	215
Deferred rent (long term)	(4)	67
	<u>448</u>	<u>(217)</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(175)	(90)
Additions to intangible assets	(30)	(18)
Restricted cash	50	
Investment in DiamondSoft, Inc.		91
	<u>(155)</u>	<u>(17)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	101	120
	<u>101</u>	<u>120</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	394	(114)
Cash and cash equivalents, beginning of period	4,405	4,367
	<u>\$ 4,799</u>	<u>\$ 4,253</u>
Cash and cash equivalents, end of period		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 1	\$ 1
Cash paid for income taxes	\$ 40	\$ 42

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Stock option compensation reclassification from accrued expenses to additional paid-in capital \$ \$ 58

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BITSTREAM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2005