

BITSTREAM INC
Form 10-Q
August 16, 2010
Table of Contents

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 June 30, 2010

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)

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Delaware **04-2744890**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
500 Nickerson Road, Marlborough, Massachusetts 01752-4695

(Address of principal executive offices and zip code)

(617) 497-6222

(Registrant's telephone number, including area code)

Indicate by checkmark 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 (the Exchange Act) 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 checkmark whether the registrant has submitted electronically and posted on its 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 No

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 definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

On August 14, 2010, there were 10,063,307 shares of Class A Common Stock, par value \$0.01 per share issued and outstanding, and no shares of Class B Common Stock, par value \$0.01 per share, issued or outstanding.

Table of Contents

INDEX

	PAGE NUMBERS
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
<u>UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2010 AND DECEMBER 31, 2009</u>	2
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009</u>	3
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009</u>	4
<u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	5
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	31
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	32
PART II. OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	33
<u>ITEM 1A. RISK FACTORS</u>	33
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	33
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	33
<u>ITEM 4. (RESERVED)</u>	33
<u>ITEM 5. OTHER INFORMATION</u>	34
<u>ITEM 6. EXHIBITS</u>	35
<u>SIGNATURES</u>	36

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BITSTREAM INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)****(Unaudited)**

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,965	\$ 17,915
Accounts receivable, net of allowance of \$25 and \$283 at June 30, 2010 and December 31, 2009, respectively	1,177	1,689
Prepaid expenses and other current assets	779	802
Short-term investments- certificates of deposit	114	114
Total current assets	6,035	20,520
Property and equipment, net	667	643
Other long-term assets:		
Long-term investments marketable securities	8,054	
Restricted investment-long-term	136	136
Goodwill	3,537	727
Intangible assets, net	3,655	78
Total other assets	15,382	941
Total assets	\$ 22,084	\$ 22,104
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 996	\$ 1,091
Accrued payroll and other compensation	763	261
Other accrued expenses	712	808
Deferred revenue	1,744	1,762
Total current liabilities	4,215	3,922
Deferred rent	536	536
Total liabilities	4,751	4,458
Commitments and contingencies (Note 7)		
Stockholders equity:		
Preferred stock, \$0.01 par value;		

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Authorized-6,000 shares		
Issued and outstanding-0 at June 30, 2010 and December 31, 2009		
Common stock, \$0.01 par value;		
Authorized-30,000 shares Class A and 500 shares Class B Class A-Issued 10,120 and 10,120 and outstanding 10,063 and 9,953 at June 30, 2010 and December 31, 2009, respectively	101	101
Class B-Issued and outstanding-0 at June 30, 2010 and December 31, 2009		
Additional paid-in capital	34,974	35,043
Accumulated deficit	(17,577)	(16,474)
Treasury stock, at cost; 57 and 167 shares at June 30, 2010 and December 31, 2009, respectively	(337)	(994)
Accumulated other comprehensive income (loss)	152	(30)
Total stockholders' equity	17,333	17,646
Total liabilities and stockholders' equity	\$ 22,084	\$ 22,104

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

Table of Contents

BITSTREAM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue:				
Software licenses	\$ 4,319	\$ 4,084	8,336	7,849
Services	1,116	1,165	2,307	2,401
Total revenue	5,435	5,249	10,643	10,250
Cost of revenue:				
Software licenses	2,087	1,602	4,298	3,167
Services	492	539	954	1,122
Cost of revenue	2,579	2,141	5,252	4,289
Gross profit	2,856	3,108	5,391	5,961
Operating expenses:				
Marketing and selling	899	874	1,702	1,907
Research and development	1,627	1,193	3,019	2,407
General and administrative	1,044	683	1,787	1,455
Total operating expenses	3,570	2,750	6,508	5,769
Operating income (loss)	(714)	358	(1,117)	192
Interest and other income, net	51	16	64	35
Income (loss) before provision for income taxes	(663)	374	(1,053)	227
Provision for income taxes	22	55	30	61
Net income (loss)	\$ (685)	\$ 319	(1,083)	166
Basic net income (loss) per share	\$ (0.07)	\$ 0.03	(0.11)	0.02
Diluted net income (loss) per share	\$ (0.07)	\$ 0.03	(0.11)	0.02
Basic weighted average shares outstanding	9,876	9,786	9,856	9,755
Diluted weighted average shares outstanding	9,876	10,152	9,856	10,140

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

Table of Contents**BITSTREAM INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN THOUSANDS)****(Unaudited)**

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,083)	\$ 166
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation	485	400
Depreciation	132	142
Net loss on disposal of property and equipment	1	
Amortization	47	14
Amortization of purchased premium on long-term investments in marketable securities	31	
Changes in operating assets and liabilities, net of the effects of the acquisition:		
Accounts receivable	513	130
Prepaid expenses and other current assets	107	14
Cash outflow for purchase of premium on long-term investments in marketable securities	(615)	
Accounts payable	(96)	575
Accrued payroll and other compensation	504	(455)
Other accrued expenses	(96)	(99)
Deferred revenue	(18)	(358)
Deferred rent		
Net cash provided by and (used in) operating activities	(88)	529
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(78)	(20)
Acquisition of Press-sense Ltd.	\$ 6,528	
	(13)	(7)
Purchase of investments in marketable securities	(7,685)	
Proceeds from sale of marketable securities	350	
Net cash used in investing activities	(13,954)	(27)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	103	411
Net cash provided by financing activities	103	411
EFFECT OF FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS:		
	(11)	(8)
Net (decrease) increase in Cash and Cash Equivalents	(13,950)	905
Cash and Cash Equivalents, beginning of period	17,915	16,162
Cash and Cash Equivalents, end of period	\$ 3,965	\$ 17,067

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

Table of Contents

BITSTREAM INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations and Significant Accounting Policies

Bitstream Inc. (together with its subsidiaries, Bitstream or the Company) is a software development company focused on bringing unique software products to a wide variety of markets. Our core software products include award-winning fonts and font rendering technologies, mobile browsing and messaging technologies, variable data publishing and Web-to-print technologies, and multi-cha