INTELLISYNC CORP
Form 10-Q
June 14, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 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)

Delaware	**77-0349154**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**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 x No ¨

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of June 7, 2004: 65,417,066

INTELLISYNC CORPORATION

10-Q REPORT

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INTELLISYNC CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	April 30, 2004	July 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 15,724	$ 7,842
Short-term investments	39,051	19,317
Accounts receivable, net of allowance for doubtful accounts of $533 and $340	9,284	5,469
Inventories	200	113
Other current assets	1,822	882
Total current assets	66,081	33,623
Property and equipment, net	1,505	1,153
Goodwill	65,236	2,731
Other intangible assets, net	31,480	2,734
Restricted cash	4,061	296
Other assets	3,350	630
Total assets	$ 171,713	$ 41,167
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,875	$ 2,619
Accrued liabilities	7,736	3,816
Current portion of obligations under capital lease	55	
Deferred revenue	5,211	2,015
Total current liabilities	14,877	8,450
Obligations under capital lease	158	
Convertible senior notes	58,154	
Other liabilities	2,329	921
Total liabilities	75,518	9,371
Commitments and contingencies (Note 9)		

Stockholders equity:		
Preferred stock, $0.001 par value; 2,000 shares authorized; none issued and outstanding at April 30, 2004 and July 31, 2003		
Common stock, $0.001 par value; 160,000 and 80,000 shares authorized; 65,332 and 47,753 shares issued and outstanding at April 30, 2004 and July 31, 2003	65	48
Additional paid-in capital	225,552	153,986
Receivable from stockholders		(112)
Deferred stock compensation		(459)
Accumulated deficit	(129,358)	(121,661)
Accumulated other comprehensive loss	(64)	(6)
Total stockholders equity	96,195	31,796
Total liabilities and stockholders equity	$ 171,713	$ 41,167

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

INTELLISYNC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	**2003**	**2004**	**2003**
Revenue				
License	$ 7,512	$ 4,828	$ 20,336	$ 13,842
Services	3,495	1,897	8,690	3,714
Total revenue	11,007	6,725	29,026	17,556
Cost and operating expenses:				
Cost of revenue (includes non-cash stock compensation of $(94), $56, $8 and $56)	2,237	1,156	5,667	2,802
Amortization of developed technology	990	161	1,543	456
Research and development (includes non-cash stock compensation of $(30), $38, $37 and $89)	3,495	1,942	8,098	5,432
Sales and marketing (includes non-cash stock compensation of $(206), $80, $11 and $80)	4,612	2,996	11,463	8,334
General and administrative (includes non-cash stock compensation of $(205), $666, $673 and $845)	1,582	1,587	5,894	3,986
Amortization of other intangibles	679	19	1,003	19
In-process research and development	775	406	3,667	406
Severance, facilities exit costs and other charges	253		929	
Total cost and operating expenses	14,623	8,267	38,264	21,435
Operating loss	(3,616)	(1,542)	(9,238)	(3,879)
Other income (expense):				
Interest income	171	168	410	645
Interest expense	(99)		(99)	(8)
Other, net	(99)		(86)	(73)
Litigation settlement gain, net	1,576		1,576	
Other-than-temporary impairment of investments		(2,394)		(2,394)
Total other income (expense)	1,549	(2,226)	1,801	(1,830)
Loss before income taxes	(2,067)	(3,768)	(7,437)	(5,709)
Provision for income taxes	(117)	(45)	(260)	(227)
Net loss	$ (2,184)	$ (3,813)	$ (7,697)	$ (5,936)
Basic and diluted net loss per common share	$ (0.03)	$ (0.08)	$ (0.14)	$ (0.13)
Shares used in computing basic and diluted net loss per common share	63,859	46,106	55,575	45,747

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

INTELLISYNC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended April 30,	
	2004	**2003**
Cash flows from operating activities:		
Net loss	$ (7,697)	$ (5,936)
Adjustments to reconcile net loss to net cash used in operating activities:		
In-process research and development	3,667	406
Other-than-temporary impairment of investments		2,394
Allowance for (recovery of) doubtful accounts	193	(318)
Inventory reserves	72	(21)
Depreciation and amortization	3,299	1,536
Amortization of debt issuance costs	92	
Non-cash stock compensation	729	1,070
Realized gain on sale of investments		(10)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,628)	(530)
Inventories	(159)	4
Other current assets	(709)	223
Other assets	(276)	44
Accounts payable	(1,940)	428
Accrued liabilities	(3,430)	(2,100)
Deferred revenue	49	(566)
Net cash used in operating activities	(7,738)	(3,376)
Cash flows from investing activities:		
Purchase of property and equipment	(441)	(256)
Purchase of short term investments	(30,565)	(8,760)
Proceeds from the sales of short-term investments	5,100	8,151
Proceeds from the maturities of short-term investments	5,650	6,885
Increase in restricted cash	(3,709)	
Acquisitions, net of cash acquired	(17,951)	(1,328)
Net cash provided by (used in) investing activities	(41,916)	4,692
Cash flows from financing activities:		
Proceeds from long-term debt	60,000	
Debt issuance costs	(2,878)	
Principal payments on capital lease	(18)	
Principal payments on borrowings	(1,764)	(2,000)
Note repayments from stockholders	310	330
Proceeds upon exercise of stock options	1,549	906

Proceeds from ESPP shares issued	337	165
Net cash provided by (used in) financing activities	57,536	(599)
Net increase in cash and cash equivalents	7,882	717
Cash and cash equivalents at beginning of period	7,842	4,331
Cash and cash equivalents at end of period	$ 15,724	$ 5,048

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

INTELLISYNC CORPORATION

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) was incorporated in California on August 27, 1993 as Puma Technology, Inc. and was subsequently reincorporated in Delaware on November 27, 1996. The Company changed its corporate name from Pumatech, Inc. to Intellisync Corporation effective February 17, 2004. The Company develops, markets and supports synchronization, mobile-application development, real-time remote information access, mobile-application management/device management, secure VPN, and identity searching/matching/screening software that enables consumers, business professionals and information technology (IT) officers to extend the capabilities of enterprise groupware and vertical applications, handheld organizers/computers, Web-enabled cellular phones, pagers and other wireless or wireline personal communications platforms.

Liquidity and Capital Resources

The Company has incurred losses and negative cash flows since inception. The Company incurred a net loss of approximately $2,184,000 and $7,697,000 for the three and nine months ended April 30, 2004 and negative cash flows from operations of approximately $7,738,000 for the nine months ended April 30, 2004. The Company s cash balances may decline further, although the Company believes that the effects of its strategic actions implemented to improve revenue as well as control costs along with existing cash resources 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.

During the third quarter of fiscal 2004, the Company realized proceeds of approximately $57,100,000, net of the initial purchasers discounts and commissions and estimated offering costs, from a convertible senior notes offering. Refer to Note 8 Long-Term Debt for more details on the convertible senior notes.

Basis of Presentation and Consolidation

The accompanying condensed consolidated financial statements of Intellisync as of April 30, 2004 and for the three and nine months ended April 30, 2004 and 2003 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, 2003. The condensed consolidated balance sheet as of July 31, 2003 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 April 30, 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. The condensed consolidated financial statements include the results of operations of all companies recently acquired, including Search Software America, Synchrologic, Inc. and Spontaneous Technology, Inc. since the date of the acquisitions. All significant inter-company balances and transactions have been eliminated in consolidation.

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 service 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 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:

Customers are required to pay separately for annual maintenance. Optional stated future renewal rates are included as a term of the contracts. The Company uses the renewal rate as vendor-specific objective evidence of fair value for maintenance.

The Company charges standard hourly rates for consulting services, when such services are sold separately, based upon the nature of the services and experience of the professionals performing the services.

For training, the Company charges standard rates for each course based upon the duration of the course, and such courses are separately priced in contracts. The Company has a history of selling such courses separately.

Revenue from license fees is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant Company obligations with regard to implementation or integration exist, the fee is fixed or determinable and collectibility is probable. Arrangements for which the fees are not deemed probable for collection are recognized upon cash collection. Payments from customers received in advance of revenue recognition are recorded as deferred revenue.

Services revenue primarily comprises revenue from consulting fees, maintenance contracts and training. Services revenue from consulting and training is recognized as the service is performed. Maintenance contracts include the right to unspecified upgrades and ongoing support. Maintenance revenue is deferred and recognized ratably as services are provided over the maintenance period.

License and services revenue on contracts involving significant implementation, customization or services, that are essential to the functionality of the software is recognized over the period of each engagement, primarily using the percentage-of-completion method. Labor hours incurred is generally used as the measure of progress towards completion as prescribed by SOP No. 81-1, Accounting for Performance of Construction-Type and Certain

Product-Type Contracts.   Revenue for these arrangements is classified as license revenue and services revenue based upon estimates of fair value for each element, and the revenue is recognized based on the percentage-of-completion ratio for the arrangement. A provision for estimated losses on engagements is made in the period in which the loss becomes probable and can be reasonably estimated. The Company considers a project completed when all contractual obligations have been met (generally the go live date).

The Company currently sells its products directly to individuals, small businesses and corporations, to original equipment manufacturers (OEMs) and to distributors and value-added resellers in North America, Europe, the Asia-Pacific region, South America and Africa. Revenue from products distributed indirectly through major distributors and resellers is recognized on a sell through basis. Agreements with the Company s major distributors and resellers contain specific product return privileges for stock rotation and obsolete products that are generally limited to contractual amounts. Reserves for estimated future returns are provided for upon revenue recognition. Product returns are recorded as a reduction of revenues. Accordingly, the Company has established a product returns reserve composed of 100% of product inventories held at the Company s distribution partners, as well as an estimated amount for returns from customers of the distributors and other resellers as a result of stock rotation and obsolete products. Such reserves are based on:

- historical product returns and inventory levels on a product by product basis;
- current inventory levels and sell through data on a product by product basis as reported by the Company s major distributors worldwide;
- demand forecast by product in each of the principal geographic markets, which is impacted by the Company s product release schedule, seasonal trends and analyses developed by the Company s internal sales and marketing group; and
- general economic conditions.

The Company licenses rights to use its intellectual property portfolio, whereby licensees, particularly OEMs, typically pay a non-refundable license fee in one or more installments and on-going royalties based on their sales of products incorporating the Company s intellectual property. Revenue from OEMs under minimum guaranteed royalty arrangements, which are not subject to future obligations, is recognized when such royalties are earned and become payable. Royalty revenue is recognized as earned when reasonable estimates of such amounts can be made. Royalty revenue that is subject to future obligations is recognized when such obligations are fulfilled. Royalty revenue that exceeds minimum guarantees is recognized in the period earned.

Stock-Based Compensation

The Company accounts for non-cash stock-based employee compensation using the intrinsic method in accordance with Accounting Principles Board (APB) Opinion No. 25,   Accounting for Stock Issued to Employees and Related Interpretations,   and complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123,   Accounting for Stock-Based Compensation   and SFAS No. 148,   Accounting for Stock-Based Compensation, Transition and Disclosures.   Stock and other equity instruments issued to non-employees is accounted for in accordance with SFAS No. 123 and Emerging Issues Task Force Issue (EITF) No. 96-18,   Accounting for Equity Instruments Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services   and valued using the Black Scholes model. Expense associated with stock-based compensation is being amortized on an accelerated basis over the vesting period of the individual award consistent with the method described in Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 28.

If compensation cost for the Company s stock plans had been determined consistent with SFAS No. 123 Accounting for Stock-Based Compensation, the Company s net loss and loss per common share would have been adjusted to the pro-forma amounts indicated below (in thousands, except per common share data):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	2003	2004	2003
Net loss as reported	$ (2,184)	$ (3,813)	$ (7,697)	$ (5,936)
Add: Stock-based employee compensation expense (recovery) included in reported net loss	(535)	840	729	1,070
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	(1,127)	(361)	(2,926)	(679)
Pro forma net loss	$ (3,846)	$ (3,334)	$ (9,894)	$ (5,545)
Basic and diluted net loss per common share as reported	$ (0.03)	$ (0.08)	$ (0.14)	$ (0.13)
Basic and diluted pro forma net loss per common share	$ (0.06)	$ (0.07)	$ (0.18)	$ (0.12)

Because the Black-Scholes option valuation model was developed for traded options and requires the input of subjective assumptions and the number of future shares to be issued or cancelled is not known, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Derivative Instruments

The Company applies SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that an entity recognize derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company designates its derivatives based upon criteria established by SFAS No. 133. For a derivative designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative designated as a cash flow hedge, the effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. Refer to Note 8 for details on the Company s only derivative instruments.

Note 2 Recently Issued Accounting Pronouncement

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. In December 2003, the FASB released a revised version of FIN No. 46 (referred to as FIN 46R) clarifying certain aspects of FIN No. 46 and providing certain entities with exemptions from the requirements of FIN No. 46. FIN

46R requires the application of either FIN No. 46 or FIN 46R to all Special Purpose Entities (SPEs) created prior to February 1, 2003 at the end of the first interim or annual reporting period ending after December 15, 2003. All entities created after January 31, 2003 were already required to be analyzed under FIN No. 46, and they must continue to do so, unless FIN 46R is adopted early. FIN 46R is applicable to all non-SPEs created prior to February 1, 2003 at the end of the first interim or annual reporting period ending after March 15, 2004. The adoption of FIN 46-R during the fiscal third quarter ended April 30, 2004 did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

Other-Than-Temporary Impairment

In March 2004, the EITF reached consensus on Issue 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF No. 03-01 includes new guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting guidance of EITF No. 03-01 is effective for fiscal years beginning after June 15, 2004, while the disclosure requirements are effective for fiscal years ending after June 15, 2004. The Company does not believe that the adoption will have a material effect on its financial position or results of operations.

Earnings Per Share

In April 2004, the EITF issued Statement No. 03-06, Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share. EITF No. 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF No. 03-06 is effective for fiscal periods beginning after March 31, 2004. The Company is currently assessing the impact of the adoption of this statement on its financial position and results of operations.

Note 3 Balance Sheets Components

Cash equivalents and short-term investments consist of the following (in thousands):

	April 30, 2004			
	Gross Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Cash equivalents				
Certificate of deposit	$ 121	$	$	$ 121
Commercial paper	1,000			1,000
Government notes and bonds	821			821
Money market funds	9,729			9,729
	$ 11,671	$	$	$ 11,671
Short term investments				
Fixed income annuities	$ 4,336	$	$	$ 4,336
Government notes and bonds	14,472	11	(23)	14,460
Auction rate preferred stock	15,250			15,250
Auction rate receipts	5,000			5,000
Other	2	3		5
	$ 39,060	$ 14	$ (23)	$ 39,051

	July 31, 2003			
	Gross Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Cash equivalents				
Commercial paper	$ 998	$	$	$ 998
Government notes and bonds	1,539			1,539
Money market funds	4,042			4,042
	$ 6,579	$	$	$ 6,579
Short term investments				
Corporate notes	$ 515	$	$	$ 515
Certificate of deposit	101			101
Fixed income annuities	4,241			4,241
Government notes and bonds	11,487	68		11,555
Auction rate preferred stock	2,900			2,900
Other	2	3		5
	$ 19,246	$ 71	$	$ 19,317

The Company invest excess cash predominantly in fixed income securities, consisting of both corporate and government securities, that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than two years with the intent to make such funds readily available for operating purposes, if needed. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities purchased with a lower yield-at-cost show a marked-to-market unrealized loss. All unrealized losses are due to changes in interest rates and bond yields. The Company expects to realize the full value of all these investments upon maturity or sale. At April 30, 2004, all of the Company s investments with gross unrealized losses were in loss positions for less than 12 months.

The estimated fair value of cash equivalents and short-term investments classified by date of contractual maturity at April 30, 2004, are as follows (in thousands):

Due within one year or less	$ 19,041
Due after one year through two years	7,090
No maturity dates	24,591
	$ 50,722

During the three and nine months ended April 30, 2004 and 2003, the Company did not record any cash equivalents- or short-term investment-related impairment charges.

Inventories consist of the following (in thousands):

	April 30, 2004	July 31, 2003
Raw materials	$ 153	$ 61
Finished goods and work-in-process	47	52
Inventories	$ 200	$ 113

Note 4 Acquisitions

Starfish Software, Inc.

In March 2003, the Company signed and closed a purchase agreement with Motorola, Inc. of Schaumburg, Illinois to acquire all of capital stock of Starfish Software, Inc., a wholly owned subsidiary of Motorola headquartered in Scotts Valley, California. Starfish is a provider of end-to-end mobile infrastructure solutions based on integrated platforms composed of server, desktop and device software for mobile data synchronization, wireless connectivity and device management. Under the terms of the stock purchase agreement, the Company initially paid a total of $1,501,000 in cash, subject to further adjustment based on actual working capital as of the closing date. The Company further paid $178,000 based on subsequent adjustments made to Starfish s working capital.

The Starfish acquisition has been accounted for as a purchase business combination. The consolidated financial statements include the results of operations of Starfish since the date of acquisition. The purchase price of $1,831,000 (including acquisition costs of $152,000) was assigned to the fair value of the assets acquired, including the following (in thousands):

Tangible assets acquired	$ 1,133
Liabilities assumed	(913)
In-process research and development	406
Developed technology	634
Patents	190
Trademarks	49
Customer base	261
Existing contracts	71
	$ 1,831

Tangible assets acquired and liabilities assumed were valued at their respective carrying amounts as the Company believes that these amounts approximated their current fair values at the acquisition date. The valuation of identifiable intangible assets acquired was based on management s estimates, currently available information and

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reasonable and supportable assumptions. This allocation was generally based on the fair value of these assets determined using the income approach.

During the third quarter of fiscal 2004, the Company recorded a number of adjustments to the provisional purchase price allocation following the resolution of certain contingencies totaling approximately $73,000, which decreased the fair value of acquired developed technology, customer base, patents and trademarks by approximately $41,000, $17,000, $12,000 and $3,000, respectively. The changes had no impact on goodwill as no goodwill resulted from the acquisition of Starfish.

Of the total purchase price, $1,205,000 was allocated to amortizable intangibles included in the above list. The amortizable intangible assets are being amortized using the straight-line method over the estimated useful life of the respective assets of nine months to four years.

As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, the Company expensed the in-process research and development at the date of the acquisition.

The amount of the purchase price allocated to in process-research and technology was based on established valuation techniques used in high-technology computer software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product have entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. The Company assumes the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. The Company, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from Starfish are as follows (in thousands):

Project name: Mercury platform technology

Percent completed as of acquisition date: 70%

Estimated costs to complete technology at acquisition date: $375,000

Risk-adjusted discount rate: 30%

First period expected revenue: calendar year 2004

Subsequent to the acquisition of Starfish, there have been no significant developments related to the current status of the acquired in-process research and development project that would result in material changes to the assumptions.

Spontaneous Technology, Inc.

On September 17, 2003, the Company consummated the acquisition of Spontaneous Technology, Inc. of Salt Lake City, Utah, a provider of enterprise secure Virtual Private Network (sVPN) software designed to extend existing corporate applications to most wireless devices. Under the terms of the agreement, the Company issued a total of 869,259 shares of Intellisync s common stock valued at approximately $2,999,000 using the five-trading-day average price surrounding the date the acquisition was announced of $3.45 per share, less estimated registration costs. The number of shares were calculated using the average price of the Company s common stock for ten consecutive trading days ended three business days prior the date of acquisition. There are 224,417 additional shares held in escrow that are contingently issuable upon satisfaction of a pre-acquisition clause. Additionally, depending upon the Company s revenues associated with sales of its products including certain technology of Spontaneous Technology during the period ending September 30, 2004, the Company may be required to pay Spontaneous Technology additional consideration of up to $7,000,000 in shares of Intellisync s common stock.

The condensed consolidated financial statements include the results of operations of Spontaneous Technology since the date of acquisition. Under the purchase method of accounting, the total preliminary purchase price was allocated to Spontaneous Technology s net tangible and intangible assets based upon their estimated fair value as of the acquisition date. The preliminary purchase price of $3,319,000 (including estimated acquisition costs of $320,000) was assigned to the fair value of the assets acquired, including the following (in thousands):

Tangible assets acquired	$ 18
Liabilities assumed	(2,478)
In-process research and development	469
Developed and core technology	889
Patents	168
Customer base	499
Goodwill	3,754
	$ 3,319

Tangible assets acquired and liabilities assumed were preliminarily valued at their respective carrying amounts as the Company believes that these amounts approximated their current fair values at the acquisition date. The preliminary valuation of identifiable intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. This allocation was generally based on the fair value of these assets determined using the income approach.

A preliminary estimate of $3,754,000, as adjusted, has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill will not be amortized but will be tested for impairment (a tax deductible charge) at least annually.

During the third quarter of fiscal 2004, the Company recorded an adjustment to the provisional purchase price allocation following the resolution of certain contingency, which increased the fair value of the liabilities assumed and goodwill by approximately $752,000. The purchase price allocation for Spontaneous Technology is subject to further revision as more detailed analysis is completed and additional information on the fair values of Spontaneous Technology s assets and liabilities becomes available. Any change in the fair value of the net assets of Spontaneous Technology will change the amount of the purchase price allocable to goodwill. Final purchase accounting may therefore differ materially from the information presented above.

Of the total purchase price, $1,556,000 was allocated to amortizable intangibles included in the above list. The amortizable intangible assets are being amortized using the straight-line method over the estimated useful life of the respective assets of four years. Refer to Note 5.

As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, the Company expensed the in-process research and development at the date of the acquisition.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. The Company assumes the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. The Company, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from Spontaneous Technology are as follows (in thousands):

Project names: Version upgrade of Spontaneous Technology s secure Virtual Private Network (sVPN)

Percent completed as of acquisition date: 60%

Estimated costs to complete technology at acquisition date: $125,000

Risk-adjusted discount rate: 22%

First period expected revenue: calendar year 2004

The development of above technology remains highly dependent on the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for a new product, and significant competitive threats from several companies. The nature of the efforts to develop this technology into a commercially viable product consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technology can meet market expectations, including functionality and technical requirements. Failure to bring the product to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on the Company s business and operating results.

Subsequent to the acquisition of Spontaneous Technology, there have been no significant developments related to the current status of the acquired in-process research and development project that would result in material changes to the assumptions.

Synchrologic, Inc.

On December 29, 2003, the Company completed its acquisition of all of the issued and outstanding stock of Synchrologic, Inc. headquartered in Atlanta, Georgia pursuant to an Agreement and Plan of Merger, dated as of September 14, 2003. The Agreement and Plan of Merger also provided for the dismissal of the Company s outstanding litigation against Synchrologic with prejudice as of September 17, 2003, thereby permanently ending this specific suit. Synchrologic s product line provides mobile access to enterprise applications, email and personal information management (PIM) data, file content, intranet sites, and Web content, while giving IT groups the tools to manage mobile devices remotely.

In the merger, all outstanding shares of Synchrologic common stock and preferred stock were converted into the right to receive a total of 15,130,171 shares of the Company s common stock. In addition, all outstanding options to purchase Synchrologic common stock were converted into options to purchase a total of 1,018,952 shares of the Company s common stock. The total number of shares issued was determined by dividing $60,000,000 by the average closing price of $5.22 of the shares of the Company s common stock for the thirty consecutive trading days ending on the last complete trading day immediately preceding the closing date of the merger (which amount was subject to adjustment based on the transaction expenses incurred by Synchrologic in connection with the merger), provided that the number of shares did not exceed 19,800,000 or be fewer than 16,200,000 (in each case subject to adjustment based on the transaction expenses incurred by Synchrologic in connection with the merger). The shares were valued at approximately $62,125,000 using the five-trading-day average price surrounding the date the acquisition was announced of $4.11 per share, and the options were valued at approximately $4,123,000 using the Black-Scholes option pricing model. The following assumptions were used to perform the calculations of the fair market value of stock options issued: fair value of Company s common stock of $4.05, expected life of 3.9 years, risk-free interest rate of 3.4%, expected volatility of 132% and no expected dividend yield.

The condensed consolidated financial statements include the results of operations of Synchrologic since the date of acquisition. Under the purchase method of accounting, the total preliminary purchase price was allocated to Synchrologic s net tangible and intangible assets based upon their estimated fair value as of the acquisition date. The preliminary purchase price of $67,037,000 (comprising the value of the shares and options described above and the estimated acquisition costs of $900,000 and net of a $111,000 adjustment for writing-off a certain liability due to Synchrologic) was assigned to the fair value of the assets acquired, including the following (in thousands):

Tangible assets acquired	$ 4,105
Liabilities assumed	(5,552)
In-process research and development	2,423
Developed and core technology	10,493
Patents	1,321
Customer base	3,487
Goodwill	50,760
	$ 67,037

Tangible assets acquired and liabilities assumed were preliminarily valued at their respective carrying amounts as the Company believes that these amounts approximated their current fair values at the acquisition date. The preliminary valuation of identifiable intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. This allocation was generally based on the fair value of these assets determined using the income approach.

A preliminary estimate of $50,760,000, as adjusted, has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill associated with Synchrologic acquisition will not be amortized but will be tested for impairment (a tax deductible charge) at least annually.

During the third quarter of fiscal 2004, the Company recorded a number adjustments to the provisional purchase price allocation following the resolution of certain contingencies, which increased the fair value of the tangible assets acquired and liabilities assumed by approximately $261,000 and $29,000, respectively, reducing the fair value of goodwill accordingly by a net amount of approximately $232,000. The purchase price allocation for Synchrologic is subject to further revision as more detailed analysis is completed and additional information on the fair values of Synchrologic s assets and liabilities becomes available. Any change in the fair value of the net assets of Synchrologic will change the amount of the purchase price allocable to goodwill. Final purchase accounting may therefore differ materially from the information presented above.

Of the total purchase price, $15,301,000 was allocated to amortizable intangibles included in the above list. The amortizable intangible assets are being amortized using the straight-line method over the estimated useful life of the respective assets of four years. Refer to Note 5.

As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, the Company expensed the in-process research and development at the date of the acquisition.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. The Company assumes the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. The Company, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from Synchrologic are as follows (in thousands):

Project names: Version upgrade of Data Sync, File Sync, E-mail accelerator and Systems Management products

Percent completed as of acquisition date: 60%-70%

Estimated costs to complete technology at acquisition date: $3,000,000

Risk-adjusted discount rate: 22%

First period expected revenue: calendar year 2004

The development of above technology remains highly dependent on the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for a new product, and significant competitive threats from several companies. The nature of the efforts to develop this technology into a commercially viable product consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technology can meet market expectations, including functionality and technical requirements. Failure to bring the product to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on the Company s business and operating results.

Subsequent to the acquisition of Synchrologic, there have been no significant developments related to the current status of the acquired in-process research and development project that would result in material changes to the assumptions.

The liabilities assumed by the Company included Synchrologic s outstanding balance of approximately $1,764,000 under a credit facility agreement with a bank. The Company fully paid the outstanding balance during the second quarter of fiscal 2004. The bank credit facility agreement was automatically terminated upon the Company s acquisition of Synchrologic.

Search Software America

On March 16, 2004, the Company completed its acquisition of all of the issued and outstanding stock of Search Software America (SSA), a privately held division of SPL WorldGroup and headquartered in Sydney, Australia, pursuant to a Stock Purchase Agreement dated as of

February 24, 2004. SSA, with operations in the United States, United Kingdom, and Australia, is a developer of solutions that enhance the ability to find, match and group (synchronize) identity data within computer systems and network databases. Under the terms of the agreement, the Company paid cash of $22,635,000, including a preliminary working capital adjustment.

The condensed consolidated financial statements include the results of operations of SSA since the date of acquisition. Under the purchase method of accounting, the total preliminary purchase price was allocated to SSA s net tangible and intangible assets based upon their estimated fair value as of the acquisition date. The preliminary purchase price of $22,845,000 (including estimated acquisition costs of $210,000) was assigned to the fair value of the assets acquired, including the following (in thousands):

Tangible assets acquired	$ 3,728
Liabilities assumed	(3,939)
In-process research and development	775
Developed and core technology	5,513
Customer base	8,777
Goodwill	7,991
	$ 22,845

Tangible assets acquired, which includes $2,146,000 of cash, and liabilities assumed were preliminarily valued at their respective carrying amounts as the Company believes that these amounts approximated their current fair values at the acquisition date. The preliminary valuation of identifiable intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. This allocation was generally based on the fair value of these assets determined using the income approach.

A preliminary estimate of $7,991,000 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill will not be amortized but will be tested for impairment (a tax deductible charge) at least annually.

Of the total purchase price, $14,290,000 was allocated to amortizable intangibles included in the above list. The amortizable intangible assets are being amortized using an accelerated method according to the expected cash flows to be received from the underlying assets over their respective estimated useful life of seven to ten years. Refer to Note 5.

As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, the Company expensed the in-process research and development at the date of the acquisition.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. The Company assumes the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. The Company, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from SSA are as follows (in thousands):

Project names: SSA-NAME3 Version 3.0 and IDS Version 3.0

Percent completed as of acquisition date: 10%

Estimated costs to complete technology at acquisition date: $600,000

Risk-adjusted discount rate: 25%

First period expected revenue: June 2005

The development of above technology remains highly dependent on the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for a new product, and significant competitive threats from several companies. The nature of the efforts to develop this technology into a commercially viable product consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technology can meet market expectations, including functionality and technical requirements. Failure to bring the product to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on the Company s business and operating results.

Subsequent to the acquisition of SSA, there have been no significant developments related to the current status of the acquired in-process research and development project that would result in material changes to the assumptions.

Unaudited Pro Forma Consolidated Combined Results

The following unaudited pro-forma consolidated financial information reflects the results of operations for the three and nine months ended April 30, 2004 and 2003, as if the acquisition of Starfish, Spontaneous Technology Synchrologic and SSA had occurred on the beginning of each period presented and after giving effect to purchase accounting adjustments. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisitions actually taken place on the beginning of each period presented. In addition, these results are not intended to be a projection of future results and do not reflect any synergies that might be achieved from the combined operations (in thousands, except per share data):

	Three Months Ended April 30,		**Nine Months Ended April 30,**	
	2004	**2003**	**2004**	**2003**
Pro forma revenue	$ 12,037	$ 12,849	$ 40,335	$ 35,552
Pro forma net loss	$ (1,830)	$ (6,495)	$ (7,390)	$ (25,066)
Pro forma basic and diluted net loss per common share	$ (0.03)	$ (0.10)	$ (0.12)	$ (0.41)

The effect of the in-process research and development charges has been excluded in the above unaudited pro forma consolidated financial information as they represent non-recurring charges directly related to the acquisitions.

Note 5 Goodwill, Developed Technology and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill is not amortized but will be tested for impairment at least annually or as impairment indicators arise. The Company performs the annual impairment tests on the 31st of July of each fiscal year. The Company currently only has one reporting unit, therefore all of the goodwill has been assigned to the enterprise as a whole. The following table sets forth the changes in goodwill during the first three quarters of fiscal 2004 (in thousands):

	Goodwill
Balance at July 31, 2003	$ 2,731
Acquired from Spontaneous Technology	3,754
Acquired from Synchrologic	50,760
Acquired from Search Software America	7,991
Balance at April 30, 2004	$ 65,236

Other intangible assets, net, consist of the following (in thousands, except weighted average useful life):

	Weighted Average Useful Life	April 30, 2004 Gross	April 30, 2004 Accumulated Amortization	April 30, 2004 Net	July 31, 2003 Gross	July 31, 2003 Accumulated Amortization	July 31, 2003 Net
Developed technology	4.6 years	$ 24,771	$ (7,523)	$ 17,248	$ 7,900	$ (5,980)	$ 1,920
Patents	4.0 years	1,679	(193)	1,486	202	(17)	185
Trademarks	2.1 years	249	(45)	204	52	(6)	46
Customer base	7.0 years	13,177	(717)	12,460	431	(25)	406
Covenant not-to-compete	2.0 years	101	(41)	60	100	(1)	99
Existing contracts	9 months	310	(288)	22	310	(232)	78
		$ 40,287	$ (8,807)	$ 31,480	$ 8,995	$ (6,261)	$ 2,734

Other intangibles as of April 30, 2004 include a total of approximately $14,290,000, $15,301,000 and $1,556,000 amortizable identifiable intangibles obtained from the Company s acquisition of SSA, Synchrologic and Spontaneous Technology, respectively, during the first three quarters of fiscal 2004. The other intangibles as of April 30, 2004 also reflect a net decrease of $55,000 recorded during the first three quarters of fiscal 2004 as a result of adjustments made to certain liabilities assumed from the acquisition of Starfish and asset purchase of Loudfire, Inc.

The amortization of developed technology amounted to $990,000 and $1,543,000 for the three and nine months ended April 30, 2004, respectively, and $161,000 and $456,000 for the corresponding periods in fiscal 2003. The amortization of other intangible assets amounted to $679,000 and $1,003,000 for the three and nine months ended April 30, 2004, respectively, and $19,000 for the corresponding periods in fiscal 2003. The Company continues to amortize other intangible assets and is required to review such assets for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, reassess their useful lives and make any necessary adjustments. Based on acquisitions completed as of April 30, 2004, the estimated future amortization expense of other intangible assets is as follows (in thousands):

	Developed Technology	Other Intangibles
Three months ending July 31, 2004	$ 1,157	$ 910
Fiscal year ending July 31,		
2005	4,538	3,553
2006	4,305	3,155
2007	4,093	2,728
2008	1,885	1,492
2009	647	750
Thereafter	623	1,644
	$ 17,248	$ 14,232

Note 6 Related Party Transactions

On September 30, 2003, the Company s board of directors approved change of control agreements with three of the Company s officers that provides for 12 months acceleration of vesting of each individual s options held at the time of a change of control. In addition, the Company granted these individuals options to purchase an aggregate of an additional 425,000 shares of the Company s common stock. As of the date of grant, the option shares will vest over four years, with 25% vesting after one year and then 1/48th vesting monthly thereafter. The Company accounts for these options using the guidance prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees and Related Interpretations, and EITF No. 00-23, Issues Relating to Accounting for Stock Compensation Under APB Opinion No. 25 and FIN No. 44.

As a result, the Company determined that the approval of the change of control agreement would result in a new measurement date for the calculation of stock-based compensation expense under FIN No. 44 because the modification may allow the officers to vest in an option or award that would otherwise been forfeited pursuant to the award s original terms. As of April 30, 2004, no change of control had occurred and the Company is unable to determine the number of options that the officers will ultimately retain that would otherwise have been forfeited, absent the modification. As a result, no compensation expense has been recognized in relation to those awards during the three months ended April 30, 2004.

The Company had a full-recourse promissory note used by its chief executive officer to purchase shares of the Company s common stock with a principal amount of approximately $310,000. The loan carried an interest rate of 4.75% per annum and was payable on June 14, 2008. During the second quarter of fiscal 2004, the promissory note was fully paid, together with the accrued interest. Due to the non-substantive nature of the exercise of the related stock option, the Company recorded a long-term liability in the consolidated balance sheets as of April 30, 2004 and July 31, 2003 of approximately $17,000 and $198,000, respectively, for the unvested portion of the shares purchased. These unvested shares are subject to repurchase by the Company until June 2004.

In April 2004, the Company underwent a reduction in workforce resulting in 17 individuals, including two executive officers, departing employment with the Company. Severance pay for affected officers was approximately $100,000 and recorded within Severance, Facilities Exit

Costs and Other Charges in the condensed consolidated statements of operations for the three and six months ended April 30, 2004. Refer to Note 7 for more details on the recent reduction in force.

Note 7 Restructuring Accrual

The Company implemented a number of cost-reduction plans aimed at reducing costs that were not integral to its overall strategy, better aligning its expense levels with current revenue levels and ensuring conservative spending during periods of economic uncertainty. These initiatives included a reduction in workforce and facilities consolidation.

During the third quarter of fiscal 2004, the Company implemented a reduction in workforce affecting 17 employees in various business functions of the Company (9 in research and development and 8 in sales and marketing). As of April 30, 2004, the number of the Company s worldwide full-time equivalent employees amounted to 266. The program was completed by the end of April 2004, and the associated severance costs incurred were approximately $253,000, $32,000 of which remained unused as of April 30, 2004 and will be paid by end of June 2004.

During the second quarter of fiscal 2004, the Company recorded facilities exit costs of $600,000 for vacating its remaining office space in Santa Cruz, California and a floor of its office facility in San Jose, California. Inherent in the estimation of the costs related to the Company s restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. In determining the excess facilities exit costs, the Company was required to estimate future sublease income, negotiated lease settlement costs, future net operating expenses of the facilities, and brokerage commissions, among other expenses. These estimates, along with other estimates made by management in connection with restructuring, may vary significantly depending, in part, on factors that may be beyond the Company s control. Specifically, these estimates will depend on the Company s success in negotiating with lessors, the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases. Adjustments to the reserve for the consolidation of excess facilities will be required if actual lease exit costs or sublease income differ from amounts currently expected.

A total of $853,000 of restructuring costs as described above was recorded, together with operating expenses of $76,000 associated with an acquisition the Company ceased pursuing, within Severance, Facilities Exit Costs and Other Charges in the condensed consolidated statement of operations for the nine months ended April 30, 2004.

The following table sets forth the activities in the restructuring accrual account during the first three quarters of fiscal 2004 (in thousands):

	Workforce Reduction	Consolidation of Excess Facilities	Total
Balance at July 31, 2003	$	$ 1,766	$ 1,766
Cash payments		(382)	(382)
Balance at October 31, 2003	$	$ 1,384	$ 1,384
Restructuring provision		600	600
Cash payments		(330)	(330)
Balance at January 31, 2004	$	$ 1,654	$ 1,654

Restructuring provision	253		253
Cash payments	(221)	(320)	(541)
Balance at April 30, 2004	$ 32	$ 1,334	$ 1,366

The remaining unpaid amount as of April 30, 2004 of $1,334,000 related to the net lease expense due to the consolidation of excess facilities, will be paid over the respective lease terms through June 2006 using cash from operations.

The current and long-term portions of the restructuring accrual of $972,000 and $394,000 are classified as Accrued Liabilities and Other Liabilities, respectively, in the condensed consolidated balance sheet as of April 30, 2004.

The Company continually evaluates the balance of the restructuring reserve it records in prior periods based on the remaining estimated amounts to be paid. Differences, if any, between the estimated amounts accrued and the actual amounts paid will be reflected in operating expenses in future periods.

Note 8 Long-Term Debt

The following table sets forth the Company s long-term obligations, excluding capital lease obligations (in thousands):

	April 30, 2004
3% convertible senior notes, interest due semi-annually, principal due in March 2009	$ 58,154
Interest rate swap fair value hedge adjustment on $60 million of 3% convertible senior notes	1,846
	60,000
Less: current portion	
Long-term portion	$ 60,000

The Company had no long-term debt as of July 31, 2003.

3% Convertible Senior Notes

During the third quarter of fiscal 2004, the Company completed the offering of $60,000,000 of convertible senior notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act. The notes are senior unsecured obligations of Intellisync and rank junior to any future secured debt, on a parity with all of the Company s other existing and future senior unsecured debt and prior to any existing or future subordinated debt. As of April 30, 2004, the Company had no senior or subordinated debt, except for ordinary course trade payables. The Company may not redeem any of the notes prior to their maturity. Holders, however, may require the Company to repurchase the notes upon some types of change in control transactions. The notes will mature on March 1, 2009 unless earlier converted or redeemed. Neither the Company nor any of its subsidiaries are subject to any financial covenants under the indenture. In addition, neither the Company nor any of its subsidiaries are restricted under the indenture from paying dividends, incurring debt, or issuing or repurchasing its securities.

The notes are convertible into shares of common stock of the Company at any time prior to the close of business on the final maturity date of the notes, subject to prior redemption of the notes. The initial conversion rate is 250.0000 shares per each $1,000 principal amount of notes which represents an initial conversion price of $4.00 per share. The conversion rate is subject to adjustment for certain events, including the payment of dividends, and other events specified in the indenture.

The notes bear interest at a rate of 3% per annum. Interest on the notes will be paid on March 1 and on September 1 of each year. The first payment will be made on September 1, 2004.

All costs and expenses incurred with the issuance of the above offering have been capitalized within Other Assets and amortized over five years, the life of the respective debt. Such costs amounted to approximately $2,786,000, net of accumulated amortization of $96,000, as of April 30, 2004.

Interest Rate Swap

During the third quarter of fiscal 2004, the Company entered into two interest rate swap agreements with a financial institution on a total notional amount of $60,000,000, whereby the Company receives fixed-rate interest of 3% in exchange for variable interest payments. The interest rate swaps expire upon the maturity of the Company s $60,000,000, 3% convertible senior notes in March 2009, and effectively converts those fixed-rate notes into variable-rate borrowings. The interest rate is reset semi-annually and is equal to the 6-month LIBOR rate minus a rate spread. The total variable interest rate was approximately 0.94% at April 30, 2004, resulting in interest expense savings relative to fixed rates of approximately $96,000 for the three and nine months then ended. Under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, this arrangement has been designated and qualifies as an effective fair value hedge of interest rate risk related to the $60,000,000 convertible senior notes. As the terms of the swaps match those of the underlying hedged debt, the changes in the fair value of these swaps are offset by corresponding changes in the carrying value of the hedged debt, and result in no net earnings impact. As of April 30, 2004, the fair value of the interest rate swap was approximately $1,846,000 and recorded in Other Liabilities with an equal adjustment recorded to the carrying value of the $60,000,000 convertible senior notes.

Refer to Note 9 for the description of the collateral required on the interest rate swap.

Note 9 Commitments and Contingencies

Leases

During the first quarter of fiscal 2004, the Company entered into a capital lease agreement for a phone system, which expires in February 2008. Assets and future obligations related to the capital lease are included in the accompanying condensed consolidated balance sheet as of April 30, 2004 in property and equipment and liabilities, respectively. Current and long-term portions of the capital lease amounted to $55,000 and $158,000, respectively, at April 30, 2004. Depreciation of assets held under the capital lease is included in depreciation and amortization expense.

The Company leases its facilities under operating leases that expire at various dates through August 2008. The leases provide for escalating lease payments.

Future minimum lease payments, for which the Company anticipates using cash from operations, for all non-cancelable capital and operating lease agreements at April 30, 2004, were as follows (in thousands):

		Three months ending	Fiscal year ending July 31,				
	Total	**July 31, 2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**
Capital lease obligation	$ 222	$ 28	$ 55	$ 55	$ 55	$ 29	$
Operating leases:							
Operating leases	6,562	1,027	3,343	1,966	156	67	3
Proceeds from subleases	(675)	(155)	(502)	(18)			
Net operating leases	5,887	872	2,841	1,948	156	67	3
Future minimum lease payments	$ 6,109	$ 900	$ 2,896	$ 2,003	$ 211	$ 96	$ 3

Guarantees

The Company has three letters of credit that collateralize certain operating lease obligations and total approximately $397,000 and $408,000 at April 30, 2004 and July 31, 2003, respectively. The Company collateralizes these letters of credit with cash deposits made with three of its financial institutions and has classified the short-term and the long-term portions of approximately $101,000 and $296,000 at April 30, 2004, and $112,000 and $296,000 at July 31, 2003 as Other Current Assets and Restricted Cash, respectively, in the consolidated balance sheets. The long-term portion expires through June 2006. The holders of the letters of credit are able to draw on each respective letter of credit in the event that the Company is found to be in default of its obligations under each of its operating leases.

Under the terms of the interest rate swap agreement into which the Company entered during the third quarter of fiscal 2004, the Company must provide collateral to match any unfavorable mark-to-market exposure (fair value) on the swap. The amount of collateral required totals a minimum of $1,800,000 plus an amount equal to the unfavorable mark-to-market exposure on the swap. Generally, the required collateral will rise as interest rates rise. As of April 30, 2004, the Company has posted approximately $3,765,000 of collateral under this swap agreement which is included in Restricted Cash in its consolidated balance sheet.

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of 90 days. The Company s software products media are generally warrantied to be free of defects in materials and workmanship under normal use and the products are also generally warrantied to perform substantially as described in certain Company documentation. The Company s services are generally warrantied to be performed in a professional manner and to conform materially to the specifications set forth in a customer s signed contract. In the event there is a failure of such warranties, the Company generally corrects or provides a reasonable work around or replacement product. The Company believes such obligations do not significantly affect the Company s financial position or results of operations.

The Company accrues for warranty expenses at the time revenue is recognized and maintains a warranty accrual for the estimated future warranty obligation based upon the relationship between historical and anticipated costs. In other instances, additional amounts are recorded when such costs are probable and can be reasonably estimated. The warranty accrual is reviewed at least quarterly. As of April 30, 2004, the warranty accrual was $200,000, which approximates the balance as of July 31, 2003.

Indemnification Obligations

On certain occasions, the Company provides to its customers intellectual property indemnification, subject to certain limitations, in its arrangements for the Company s software products or services. Typically these obligations provide that the Company will indemnify, defend and hold the customers harmless against claims by third parties that its software products or services infringe upon the copyrights, trademarks, patents or trade secret rights of such third parties. As of April 30, 2004, there has been no significant claim made by any third party with regard to the Company s software products or services. The liability reserve for indemnification obligations is not significant.

Section 145 of the Delaware General Corporation Law (Delaware Law) permits the indemnification of officers, directors, and other corporate agents under certain circumstances and subject to certain limitations. The Company s Certificate of Incorporation and Bylaws provide that the Company shall indemnify its directors, officers, employees, and agents to the full extent permitted by Delaware Law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, the Company has entered into separate indemnification agreements with its directors and officers which would require the Company, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service (other than liabilities arising from willful misconduct of a culpable nature). These indemnification provisions may be sufficiently broad to permit indemnification of the Company s officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act of 1933, as amended. At present, there is no pending litigation or proceeding involving a director, officer, employee or other agent of the Company in which indemnification is being sought nor is the Company aware of any threatened litigation that may result in a claim for indemnification by any director, officer, employee or other agent of the Company.

The offering memorandum and registration statement associated with the 3% Convertible Senior Notes Due 2009 include indemnification provisions that obligate the Company to indemnify and hold harmless each initial purchaser of the notes against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in such memorandum or the registration statement. As of April 30, 2004, the Company does not believe it is probable that it will have to make any material payments for claims that could result from such provisions in the future. As such, no amounts have been recorded under these indemnifications as of April 30, 2004.

Litigation

On December 5, 2002, the Company filed a patent infringement suit against Synchrologic, Inc. in the United States District Court for the Northern District of California, alleging that Synchrologic s server and desktop products infringe on six of Intellisync s synchronization-related patents. As a result of the Company s definitive agreement dated September 14, 2003 to purchase all of the issued and outstanding stock of Synchrologic, the Company and Synchrologic agreed to dismiss the Company s outstanding litigation against Synchrologic with prejudice as of September 17, 2003, thereby permanently ending this specific suit.

On April 19, 2002, the Company filed a patent infringement suit against Extended Systems, Inc. in the United States District Court for the Northern District of California (the Court). The Company alleged that

Extended Systems server and desktop products infringe on certain of its synchronization-related patents. On March 4, 2004, the Company announced its mutual agreement with Extended Systems, Inc. to settle the patent infringement lawsuit. In an agreement signed by both companies, the Company and Extended Systems agreed to settle all claims and terminate litigation proceedings immediately. Under the settlement agreement, Extended Systems made a one-time payment of $2,000,000 to the Company and received a license to certain Intellisync patents, which Extended Systems acknowledges are valid. During the three months ended April 30, 2004, the Company recorded the settlement proceeds, net of $424,000 related legal costs incurred for the quarter as Litigation Settlement Gain, Net in the condensed consolidated statements of operations. Both companies agreed there will be no further patent litigation actions between the two companies for a period of five years and that the Company would release all Extended Systems customers from any claims of infringement relating to their purchase and future use of Extended Systems products.

The Company is also involved in various litigation and claims arising in the normal course of business. In management s opinion, these matters are not expected to have a material impact on the Company s consolidated results of operations or financial condition.

Note 10 Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of dilutive potential common shares that were outstanding during the period. Diluted weighted average shares reflect the dilutive effect, if any, of potential common shares based on the treasury stock method.

Basic and diluted net loss per common share were calculated as follows (in thousands, except per common share amounts):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	**2003**	**2004**	**2003**
Numerator:				
Net loss	$ (2,184)	$ (3,813)	$ (7,697)	$ (5,936)
Denominator:				
Weighted average shares outstanding used to compute basic and diluted net loss per common share	63,859	46,106	55,575	45,747
Basic and diluted net loss per common share	$ (0.03)	$ (0.08)	$ (0.14)	$ (0.13)

All common shares that were held in escrow and that were subject to repurchase by the Company, totaling approximately 1,389,000 and 653,000 as of April 30, 2004 and 2003, respectively, were excluded from basic and diluted net loss per common share calculations.

Potential common shares attributable to stock options, convertible senior notes, warrants, shares held in escrow and shares subject to repurchase by the Company, of 25,784,894 and 7,675,834 were outstanding at April 30, 2004 and 2003, respectively. However, as a result of the net loss incurred by the Company in the three and nine months ended April 30, 2004 and 2003, none of the shares were included in the weighted average outstanding shares (using the treasury stock method) used to calculate net loss per common share because the effect would have been antidilutive.

Note 11 Comprehensive Loss

Accumulated other comprehensive loss consists of net unrealized gain/loss on available for sale investments and foreign currency translation adjustments. Total comprehensive loss for the three and nine months ended April 30, 2004 and 2003, respectively, is presented in the following table (in thousands):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	**2003**	**2004**	**2003**
Net loss	$ (2,184)	$ (3,813)	$ (7,697)	$ (5,936)
Other comprehensive loss:				
Change in net unrealized loss on investments	(47)	(5)	(81)	(57)
Realized gain on investments				10
Change in currency translation adjustments	(32)	(7)	23	(11)
Total other comprehensive loss	(79)	(12)	(58)	(58)
Total comprehensive loss	$ (2,263)	$ (3,825)	$ (7,755)	$ (5,994)

Note 12 Business Segments

Operating segments are identified as components of an enterprise about which separate, discrete financial information is available that is evaluated by the chief operating decision maker or decision-making group to make decisions about how to allocate resources and assess performance. The Company s chief operating decision maker is the chief executive officer. To date, the Company has reviewed its operations principally in a single segment.

The Company operates in a single industry segment encompassing the development, marketing and support of synchronization software and services. The Company s customer base consists primarily of corporate organizations, business development organizations, industry associations, resellers, international system integrators, large OEMs in the personal computer (PC) market and selected distributors, which primarily market to the retail channel, in North America, Europe, the Asia-Pacific region, South America, and Africa.

Revenue is attributed to regions based on the location of customers. Revenue information by geographic region is as follows (in thousands):

	Three Months Ended April 30,	Nine Months Ended

			April 30,	
	2004	2003	2004	2003
United States	$ 7,658	$ 4,319	$ 19,291	$ 11,396
Japan	1,174	1,105	4,547	2,939
Other International	2,175	1,301	5,188	3,221
Total revenue	$ 11,007	$ 6,725	$ 29,026	$ 17,556

Substantially all of the Company s long-lived assets, including goodwill associated with SSA acquisition, are in the United States.

Revenue information by product group is as follows (in thousands):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	2003	2004	2003
Enterprise and retail products	$ 6,576	$ 3,292	$ 14,172	$ 9,648
Technology licensing components	4,431	3,433	14,854	7,908
Total revenue	$ 11,007	$ 6,725	$ 29,026	$ 17,556

The Company s enterprise and retail products include Intellisync® Handheld Edition, Intellisync Handheld Edition for Enterprise (formerly Enterprise Intellisync®), Intellisync Phone Edition, Intellisync goAnywhere, Intellisync Mobile Suite® (formerly Synchrologic Mobile Suite), Intellisync MobileApp Designer (formerly Satellite Forms®), Intellisync for Oracle and SSA s offerings (Intellisync Identity Systems, Intellisync Data Clustering Engine, Intellisync SSA-NAME3), as well as related support and maintenance. Technology licensing components include various licensed technology platforms, including Intellisync Mobile Suite for Wireless Operators, Intellisync Software Development Platform, Intellisync for the Web, Intellisync SyncML Server (formerly TrueSync®), Intellisync VPN, Intellisync Server-to-Server, professional services, non-recurring engineering services and related maintenance contract programs.

No customers accounted for more than 10% of the Company s total revenue for the three and nine months ended April 30, 2004. Products sold through Ingram Micro US, a distributor, accounted for 9% and 12% of the total revenue in the three and nine months ended April 30, 2003, respectively. No other customers accounted for more than 10% of total revenue during those periods in fiscal 2003.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the condensed consolidated financial statements and the notes thereto contained elsewhere in this Form 10-Q and in conjunction with the consolidated financial statements and management s discussion and analysis of financial condition and results of operations in our Form 10-K. This quarterly report on Form 10-Q, and in particular management s discussion and analysis of financial condition and results of operations, contains forward-looking statements regarding future events or our future performance that involve certain risks and uncertainties including those discussed in Factors That May Affect Future Operating Results below. In this Form 10-Q, the words anticipates, believes, expects, intends, future and similar expressions identify forward-looking statemen All statements that address operating performance, our stock price, events or developments that we expect or anticipate will occur in the future, including statements relating to planned product releases and composition of revenue, both in terms of segment and geographical source, are forward-looking statements. Such forward-looking statements are based on management s current views and assumptions regarding future events and operating performance, and speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. Actual events or our actual future results may differ materially from any forward-looking statements due to the risks and uncertainties outlined below.

Management s discussion and analysis includes:

A business overview.

Estimates, assumptions and critical accounting policies.

A comparison of our results of operations in the three and nine months ended April 30, 2004 with the results in the corresponding periods in fiscal 2003.

Recently issued accounting pronouncements.

A discussion of our operating liquidity and capital resources.

A discussion of factors that may affect our future operating results.

Business Overview

Intellisync Corporation was incorporated in California on August 27, 1993 as Puma Technology, Inc. and was subsequently reincorporated in Delaware on November 27, 1996. We changed our corporate name from Pumatech, Inc. to Intellisync Corporation effective February 17, 2004. We develop, market and support synchronization, mobile-application development, remote access and mobile-application management/device management software that enables consumers, business professionals and information technology (IT) officers to extend the capabilities of enterprise groupware and vertical applications, handheld organizers/computers, Web-enabled cellular phones, pagers and other wireless or wireline personal communications platforms. Designed to connect people with essential information, anytime and anywhere, our product family includes the following offerings:

Intellisync® Handheld Edition, Intellisync Handheld Edition for Enterprise (formerly Enterprise Intellisync®) and Intellisync Phone Edition software;

Intellisync for Oracle software;

Intellisync goAnywhere software acquired from Loudfire, Inc.;

Intellisync Mobile Suite® (formerly Synchrologic Mobile Suite);

Intellisync MobileApp Designer (formerly Satellite Forms®);

Intellisync Mobile Suite for Wireless Operators

Intellisync Software Development Platform;

Intellisync for the Web;

Intellisync SyncML Server (formerly TrueSync®) software developed by our wholly owned subsidiary, Starfish Software, Inc.;

Intellisync VPN software acquired from Spontaneous Technology; and

Intellisync Server-to-Server

Intellisync Identity Systems (IDS)

Intellisync Data Clustering Engine (DCE)

Intellisync SSA-NAME3

We have organized our operations into a single operating segment encompassing the development, marketing and support of software and services that provide synchronization, mobile application development, application/device management, real-time remote information access, secure VPN, and identity searching/matching/screening capabilities.

We license our software products directly to corporations, original equipment manufacturers (OEMs) and business development organizations worldwide. In addition, we sell our retail products through several distribution channels both in the United States and internationally, including major distributors, resellers, computer dealers, retailers and mail-order companies. Internationally, we are represented by over 100 distributors and resellers in North America, Europe, the Asia-Pacific region, South America and Africa.

Part of our business strategy is to enhance shareholder value through acquisitions that target companies where our management, shareholders and corporate structure can be leveraged to improve strategic market position and growth potential in both emerging and established technologies. Our recent acquisitions, together with our internal development efforts, have been aimed at expanding our focus from cabled synchronization to synchronization for wireless handhelds, smartphones, laptops and tablets, where a number of industry analysts, such as International Data Corporation (IDC), predict important growth in the near future. With the acquisition of Spontaneous Technology, Inc., the acquisition of Synchrologic, Inc. and Search Software America, we believe our management and employee efforts should continue to aid in our growth and development. We also plan to increase our focus on various wireless carriers to expand our business and seek new opportunities to offer a wide variety of services to the enterprise, small businesses, and individual business professionals. Furthermore, we plan to continue working on achieving operational and cost efficiencies. Our recent restructuring program reflects our ongoing efforts to better align our costs structure with revenue performance.

Acquisitions

On September 17, 2003, we consummated the acquisition of Spontaneous Technology, Inc. of Salt Lake City, Utah, a provider of enterprise secure Virtual Private Network (sVPN) software designed to extend existing corporate applications to most wireless devices. Under the terms of the agreement, we issued a total of 869,259 shares of our common stock valued at approximately $2,999,000. There are 224,417 additional shares held in escrow that are contingently issuable upon satisfaction of a pre-acquisition clause. Additionally, depending upon our revenues associated with sales of our products including certain technology of Spontaneous Technology during the period ending September 30, 2004, we may be required to pay Spontaneous Technology additional consideration of up to $7,000,000 in shares of our common stock.

On December 29, 2003, we completed our acquisition of all of the issued and outstanding stock of Synchrologic, Inc. headquartered in Atlanta, Georgia pursuant to an Agreement and Plan of Merger, dated as of September 14, 2003. The Agreement and Plan of Merger also provided for the dismissal of the outstanding litigation against Synchrologic with prejudice as of September 17, 2003, thereby permanently ending this specific suit. In the merger, we issued a total of 15,130,171 shares of our common stock valued at approximately $62,125,000 and options to purchase a total of 1,018,952 shares of our common stock valued at approximately $4,123,000. Synchrologic s product line provides mobile access to enterprise applications, email and personal information management (PIM) data, file content, intranet sites, and Web content, while giving IT groups the tools to manage mobile devices remotely.

On March 16, 2004, we completed our acquisition of all of the issued and outstanding stock of Search Software America (SSA), a privately held division of SPL WorldGroup and headquartered in Sydney, Australia, pursuant to a Stock Purchase Agreement dated as of February 24, 2004. SSA, with operations in the United States, United Kingdom, and Australia, is a developer of solutions that enhance the ability to find, match and group (synchronize) identity data within computer systems and network databases. Under the terms of the agreement, we paid $22,525,000, net of $2,110,000 cash acquired, including a preliminary working capital adjustment.

We believe that the acquisitions of Spontaneous Technology, Synchrologic and SSA will enhance our enterprise offerings, while also serving to bolster our position, patent portfolio and technology leadership in the synchronization and mobile infrastructure software arenas.

Convertible Senior Notes

During the third quarter of fiscal 2004, we completed the offering of $60,000,000 of convertible senior notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act. The notes are convertible into shares of our common stock at any time prior to the close of business on the final maturity date of the notes, subject to prior redemption of the notes. The initial conversion rate is 250.0000 shares per each $1,000 principal amount of notes which represents an initial conversion price of $4.00 per share. The conversion rate is subject to adjustment for certain events, including the payment of dividends, and other events specified in the indenture. The notes bear interest at a rate of 3% per annum. Interest on the notes will be paid on March 1 and on September 1 of each year. The first payment will be made on September 1, 2004. All costs and expenses incurred with the issuance of the offering have been capitalized and amortized over five years, the life of the respective debt. Such costs amounted to approximately $2,786,000, net of accumulated amortization of $96,000, as of April 30, 2004.

Proceeds of approximately $57,100,000, net of the initial purchasers discounts and commissions and estimated offering costs, were received from the offering in March 2004. A portion of the net proceeds of the offering were used to complete the acquisition of SSA. We intend to use the balance of the net proceeds to fund possible investments in, or acquisitions of, complementary businesses, products or technologies or establishing joint ventures and for general corporate purposes and working capital requirements. We invested the net proceeds from this offering, pending their ultimate use, in short-term, interest-bearing, investment grade securities.

Interest Rate Swap. The fair market value of these 3% convertible senior notes is sensitive to changes in interest rates and to the prices of our common stock into which it can be converted as well as our financial stability. In order to manage interest costs and risk, we entered into two interest rate swap agreements with a financial institution on a total notional amount of $60,000,000, whereby we receive fixed-rate interest of 3% in exchange for variable interest payments. The interest rate swaps expire upon the maturity of our $60,000,000, 3% convertible senior notes in March 2009, and effectively converts those fixed-rate notes into variable-rate borrowings. The interest rate is reset semi-annually and is equal to the 6-month LIBOR rate minus a rate spread. The total variable interest rate was approximately 0.94% at April 30, 2004, resulting in interest expense savings relative to fixed rates of approximately $96,000 for the three and nine months then ended. Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, this arrangement has been designated and qualifies as an effective fair value hedge of interest rate risk related to the $60,000,000 convertible senior notes. As the terms of the swaps match those of the underlying hedged debt, the changes in the fair value of these swaps are offset by corresponding changes in the carrying value of the hedged debt, and result in no net earnings impact.

Restructuring

During the third quarter of fiscal 2004, we implemented a reduction in workforce affecting 17 employees, including two executive officers, in various business functions (9 in research and development and 8 in sales and marketing). As of April 30, 2004, the number of our worldwide full-time equivalent employees amounted to 266. The program was completed by the end of April 2004, and the associated severance costs incurred were approximately $253,000.

Estimates, Assumptions and Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America. Preparing financial statements require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses. These estimates and assumptions are affected by management s application of accounting policies. Our critical accounting policies include license and service revenue recognition, channel inventory and product returns, valuation of goodwill, other intangibles, investments and other long-lived assets, restructuring accruals, loss contingencies and provision for doubtful accounts which are discussed in more detail under the caption *Estimates, Assumptions and Critical Accounting Policies* in our 2003 Annual Report on Form 10-K.

Results of Operations

The following table sets forth items included in the condensed consolidated statements of operations as a percentage of revenue for the periods indicated. Certain prior period amounts were reclassified to conform to the current period s presentation.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	2003	2004	2003
Revenue				
License	68.2%	71.8%	70.1%	78.8%
Services	31.8	28.2	29.9	21.2
Total revenue	100.0%	100.0%	100.0%	100.0%
Cost and operating expenses:				
Cost of revenue	20.3	17.2	19.5	16.0
Amortization of developed technology	9.0	2.4	5.3	2.6
Research and development	31.8	28.9	27.9	30.9
Sales and marketing	41.9	44.5	39.5	47.5
General and administrative	14.4	23.6	20.3	22.7
Amortization of intangibles	6.2	0.3	3.5	0.1
In-process research and development	7.0	6.0	12.6	2.3
Severance, facilities exit costs and other charges	2.3		3.2	
Total cost and operating expenses	132.9	122.9	131.8	122.1
Operating loss	(32.9)	(22.9)	(31.8)	(22.1)
Other income (expense):				
Interest income	1.6	2.5	1.4	3.7
Interest expense	(0.9)		(0.3)	(0.1)
Other, net	(0.9)		(0.3)	(0.4)
Litigation settlement gain, net	14.3		5.4	
Other-than-temporary impairment of investments		(35.6)		(13.6)
Total other income (expense)	14.1	(33.1)	6.2	(10.4)
Loss before income taxes	(18.8)	(56.0)	(25.6)	(32.5)
Provision for income taxes	(1.1)	(0.7)	(0.9)	(1.3)
Net loss	(19.9)%	(56.7)%	(26.5)%	(33.8)%

Revenue

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
Total revenue	$ 11,007	63.7%	$ 6,725	$ 29,026	65.3%	$ 17,556

We derive revenue from two primary sources: software licenses and fees for services. Our third quarter of fiscal 2004 reflected our seventh consecutive quarter of increase in revenue, primarily due from revenue contributions of Intellisync Mobile Suite and professional service, reflected in the growth in the number of our technology licensing partners. These increases are largely the result of our recent acquisitions and, we believe, of increase in sales and marketing efforts, both domestically and internationally, and our emphasis on enhancing our products offerings. During the quarter, our Intellisync Mobile Suite, Intellisync Handheld Edition, and Intellisync Phone Edition platforms have each added support for many new wireless devices or smartphones, the market for which we believe has experienced growth recently. We plan to continue to add wireless device support to our wide array of supported wired devices.

While the market for smartphones and other wireless mobile devices has been growing recently, the market for wired or traditional PDAs (personal digital assistants) has continued to face challenges. The overall decline in traditional PDA sales has had a direct impact on sales of our Intellisync products through the consumer and online channels, where sales of our synchronization software typically occur at the same time a PDA is purchased, or shortly thereafter. Due to this decline, our retail revenue has not increased as quickly as we would like during fiscal 2004.

However, as we look ahead to the rest of fiscal 2004, we are planning for further sequential growth in our quarterly revenue made possible by our new enterprise and technology licensing partners and further contributions from Intellisync Mobile Suite and SSA. Our acquisitions of Synchrologic and SSA have strengthened and, we expect, to continue to strengthen our presence in Europe and Asia-Pacific. However, due to seasonality, our fourth quarter may reflect some weakness in European revenue.

Our acquisition of Starfish Software, Inc. and asset purchase of Loudfire, Inc. in fiscal 2003, as well as our recent acquisition of Spontaneous Technology, Synchrologic and SSA have provided and are expected to further provide us with access to new technology capabilities, potential access to new markets and customers and other revenue-generation opportunities. We expect revenue benefits over time through synergies in technology, product development and operations. Our recent acquisitions already have made positive contributions to revenue for the three and nine months ended April 30, 2004. We believe that new and existing products based upon the technologies from Starfish, Spontaneous Technology, Synchrologic and SSA could continue to have a positive impact on revenues, provide operational benefits and improve our bottom line in the remainder of fiscal 2004.

License Revenue.

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	**Percent Change**	**2003**	**2004**	**Percent Change**	**2003**
	(In thousands, except percentages)					
License revenue	$ 7,512	55.6%	$ 4,828	$ 20,336	46.9%	$ 13,842
As percentage of total revenue	68.2%		71.8%	70.1%		78.8%

License revenue is earned from the sale and use of software products (including our technology licensing components) and royalty agreements with OEMs. The increase in absolute license revenue for the three months ended April 30, 2004 as compared with the same period in fiscal 2003 reflected an increase of $1,455,000 in revenue from enterprise and an increase of $1,229,000 in revenue from technology licensing components. The increase in absolute license revenue for the nine months ended April 30, 2004 as compared with the same period in fiscal 2003 reflected an increase of $4,417,000 in revenue from technology licensing components and an increase of $2,077,000 in revenue from enterprise. A significant portion of the increase in our license revenue for the three and nine months ended April 30, 2004 was contributed by Synchrologic and SSA. The increase in license revenue was also due to greater demand, as compared with the preceding fiscal year, for certain of our customers products in which our technology is embedded. The increase in our customers sales provided us with increased royalty proceeds. As a percentage of total revenue, license revenue decreased due to significant increase in our revenue from professional services as described below, as well as the general impact of the decline in wired or traditional PDA sales to our retail revenue.

Service Revenue.

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
Service revenue	$ 3,495	84.2%	$ 1,897	$ 8,690	134.0%	$ 3,714
As percentage of total revenue	31.8%		28.2%	29.9%		21.2%

Service revenue is derived from fees for services, including fixed-price and time-and-materials professional services arrangements and amortization of maintenance contract programs. The increase in service revenue for the three months ended April 30, 2004 as compared with the same period in fiscal 2003 resulted from an increase of approximately $1,160,000 in amortization of our maintenance contract programs relating to new license customers associated with our recent acquisitions. The increase in service revenue for the quarter was also due to $438,000 growth in professional service revenue associated with our technology licensing partners. The increase in service revenue for the nine months ended April 30, 2004 resulted from an increase of approximately $3,444,000 in professional service revenue associated with our technology licensing partners and $1,532,000 in amortization of our maintenance contract programs. The increase in professional service revenue was attributable to new customer contracts also primarily associated with our recent acquisitions. In any period, service revenue from time and materials contracts is dependent, among other things, on license transactions closed during the current and preceding quarters and customer decisions regarding implementations of licensed software.

Enterprise and Retail Products

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
Enterprise and retail products	$ 6,576	99.8%	$ 3,292	$ 14,172	46.9%	$ 9,648
As percentage of total revenue	59.7%		49.0%	48.8%		55.0%

Our enterprise and retail products revenue includes sales to retail distribution channels, as well as direct sales of our personal and server products licensed to corporations for internal use. Enterprise and retail products include Intellisync Handheld Edition, Intellisync Handheld Edition for Enterprise (formerly Enterprise Intellisync), Intellisync Phone Edition, Intellisync goAnywhere, Intellisync Mobile Suite (formerly Synchrologic Mobile Suite), Intellisync MobileApp Designer (formerly Satellite Forms), Intellisync for Oracle and SSA s offerings (Intellisync Identity Systems, Intellisync Data Clustering Engine, Intellisync SSA-NAME3), as well as related support and maintenance. Enterprise sales typically involve large up-front license fees, which can result in lengthy sales cycles and uncertainties as to the timing of sales driven by customers budgetary processes. As a result, we generally have less visibility into future enterprise sales than is typically the case in our royalty-based technology licensing business. In addition, while enterprise sales generally result in ongoing maintenance revenues and may lead to follow-on purchases or upgrades, we are typically dependent on sales to new customers for the majority of our enterprise revenues in a given quarter.

The increase in enterprise and retail products revenue for the three months ended April 30, 2004 resulted from contributions of $1,649,000 from SSA and Synchrologic products, an increase of $1,142,000 in revenue from amortization of support and maintenance, an increase of $798,000 in revenue from our enterprise server products, and an increase of $70,000 in retail sales of our Intellisync software. This increase for the three months ended April 30, 2004 was slightly offset by a $375,000 decrease in revenue from Intellisync Handheld Edition for Enterprise and Intellisync MobileApp Designer. The increase in enterprise and retail products revenue for the nine months ended April 30, 2004 resulted from an increase of $2,042,000 in revenue from our enterprise server products, contributions of $1,885,000 from SSA and Synchrologic products, an increase of $1,523,000 in revenue from amortization of support and maintenance and an increase of $842,000 in retail sales of our Intellisync software, which was slightly offset by the decline of $1,768,000 in revenue from our Intellisync Handheld Edition for Enterprise and Intellisync MobileApp Designer. Less emphasis on marketing of Intellisync Handheld Edition for Enterprise and Intellisync MobileApp Designer, and more on the transition of our enterprise server offering to Intellisync Mobile Suite, during the three and nine months ended April 30, 2004 contributed to the decrease in revenue from Intellisync Handheld Edition for Enterprise and Intellisync MobileApp Designer for the said periods. We expect revenue in absolute dollars from enterprise and retail products, particularly enterprise, to further improve in the following quarter as compared with the previous quarters of fiscal 2004, which we believe will be driven by contributions from Intellisync Mobile Suite acquired from Synchrologic and Intellisync SSA-NAME3, Intellisync Identity Systems and Intellisync Data Clustering Engine acquired from SSA. In addition, we expect revenue from retail products to slightly increase for the next quarter as compared with the previous quarters of fiscal 2004 as we build up our continued support for many new wireless devices or smartphones particularly with our Intellisync Phone Edition platform. We expect revenue from this support for wireless devices to offset the impact of the lower wired or traditional PDA sales on our retail revenue which would otherwise decline.

Technology Licensing Components

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	**Percent Change**	**2003**	**2004**	**Percent Change**	**2003**
			(In thousands, except percentages)			
Technology licensing components	$ 4,431	29.1%	$ 3,433	$ 14,854	87.8%	$ 7,908
As percentage of total revenue	40.3%		51.0%	51.2%		45.0%

Technology licensing components include various licensed technology platforms, including Intellisync Software Development Platform, Intellisync for the Web, Intellisync SyncML Server (formerly TrueSync), Intellisync VPN, Intellisync Server-to-Server, professional services, non-recurring engineering services and related maintenance contract programs. The increase in technology licensing revenue for the three months ended April 30, 2004 as compared with the same period in fiscal 2003 resulted from an increase in Intellisync Software Development Platform revenue. The increase in technology licensing revenue for the nine months ended April 30, 2004 resulted from an increase in Intellisync Software Development Platform revenue of approximately $4,417,000 and in professional services of approximately $2,529,000 as compared with the same period in fiscal 2003. The decrease in technology licensing revenue for the three months ended April 30, 2004 as a percentage of revenue was due to a larger increase in revenue from enterprise and retail products, as well as a number of licensing deals we expected to close during the third quarter, but the negotiations of which have been carried over in to the fourth quarter of fiscal 2004. We expect revenue from technology licensing components for the fourth quarter to equal or exceed levels reached in the second quarter of fiscal 2004.

International Revenue

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	**Percent Change**	**2003**	**2004**	**Percent Change**	**2003**
			(In thousands, except percentages)			
International revenue	$ 3,349	39.2%	$ 2,406	$ 9,735	58.0%	$ 6,160
As percentage of total revenue	30.4%		35.8%	33.5%		35.1%

International revenue continues to represent a significant portion of our revenue. The year-over-year increase in our international revenues accounted for 22% and 31% of our total revenue increase for the three and nine months ended April 30, 2004, respectively. The increase in our professional services revenue and the number of our international technology licensing partners, particularly in Japan, resulted in an increase in our international revenue in absolute dollars during this period. The decrease in international revenue as a percentage of total revenue for the three and nine months ended April 30, 2004, on the other hand, is primarily due to increased revenue from our newer offerings in the United States. We expect our recent acquisitions of Synchrologic and SSA will further strengthen our presence in Asia-Pacific, as well as Europe. We believe, however, that international revenue will fluctuate on a quarter to quarter basis as we periodically enter into new agreements for professional services and new international partner contracts for technology licensing. International revenue may be subject to certain risks not normally encountered in operations in the United States, including exposure to tariffs, various trade regulations, fluctuations in currency exchange rates, as well as international software piracy as described more fully in *Factors*

That May Affect Future Operating Results set forth below. We expect revenue from Asia-Pacific to increase and revenue from Europe to show a sequential decrease due to seasonality in the last quarter of fiscal 2004

Top Customers

No customers accounted for more than 10% of our total revenue for the three and nine months ended April 30, 2004. Products sold through Ingram Micro US, a distributor, accounted for 9% and 12% of the total revenue in the three and nine months ended April 30, 2003, respectively. No other customers accounted for more than 10% of total revenue during those periods in fiscal 2003.

Cost of Revenue

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	**Percent Change**	**2003**	**2004**	**Percent Change**	**2003**
	(In thousands, except percentages)					
Cost of revenue	$ 2,237	93.5%	$ 1,156	$ 5,667	102.2%	$ 2,802
As percentage of total revenue	20.3%		17.2%	19.5%		16.0%

Cost of revenue consists of license costs and service costs. License costs comprise product-packaging expenses such as product media and duplication, manuals, packing supplies, and shipping costs. Service costs comprise personnel-related expenses such as salaries and other related costs associated with work performed under professional service contracts, non-recurring engineering agreements, and post-sales customer support costs. Service costs can be expected to vary significantly from period to period depending on the mix of services we provide. In general, license revenue costs represent a smaller percentage of license revenue when compared with service revenue costs as a percentage of service revenue; this is due to the high cost structure of service revenue. Additionally, license costs tend to be variable based on license revenue volumes, whereas service costs tend to be fixed within certain service revenue volume ranges.

The increase in cost of revenue in absolute dollars and as a percentage of revenue reflected the increase in professional services costs as a result of the Starfish acquisition in the second half of fiscal 2003 and Spontaneous Technology, Synchrologic and SSA in the first three quarters of fiscal 2004. We expect cost of revenue, excluding the effects of stock compensation, in absolute dollars to increase slightly relative to that of the third quarter of fiscal 2004 as a result of the full-quarter impact of SSA. However, we believe cost of revenue as a percentage of revenue could decrease slightly for the next quarter as an overall effect of an expected further increase in total revenue.

Amortization of Developed Technology.

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
Amortization of developed technology	$ 990	514.9%	$ 161	$ 1,543	238.4%	$ 456
As percentage of total revenue	9.0%		2.4%	5.3%		2.6%

The increase in the amortization of developed technology was primarily due to the impact of recently purchased technology from Starfish, Loudfire, Spontaneous Technology, Synchrologic and SSA. Based on acquisitions completed as of April 30, 2004, we expect the future amortization expense of developed technology is as follows (in thousands):

Three months ending July 31, 2004	$ 1,157
Fiscal year ending July 31,	
2005	4,538
2006	4,305
2007	4,093
2008	1,885
2009	647
Thereafter	623
	$ 17,248

We expect that we may acquire additional developed technology associated with any acquisitions we may complete in the future. As a result, we may further increase our amortization expense of developed technology.

Research and Development

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
Research and development	$ 3,495	80.0%	$ 1,942	$ 8,098	49.1%	$ 5,432
As percentage of total revenue	31.8%		28.9%	27.9%		30.9%

Research and development expenses consist primarily of salaries and other related costs for research and development personnel, quality assurance personnel, product localization, fees to outside contractors and the cost of facilities and depreciation of capital equipment. We invest in research and development both for new products and to provide continuing enhancements to existing products. Our engineering group is currently aiming their efforts at expanding focus from cabled synchronization to synchronization for wireless handhelds, smartphones, laptops and tablets, at extending our core synchronization technology to increase scalability and extensibility, and at supporting next generation wireless technology and device platforms. The increase in research and development spending in absolute dollars was due to acquired workforce of approximately 71 engineers from the acquisition of Spontaneous Technology, Synchrologic and SSA during the first three quarters of fiscal 2004. The decrease in research and development spending as a percentage of revenue for the nine months ended April 30, 2004 resulted from an increase in our total revenue. Excluding the effects of stock compensation, absolute research and development expenses, and as a percentage of revenue, are expected to decrease slightly for the next quarter as compared with those for the third quarter of fiscal 2004, despite the inclusion of a full-quarter s worth of SSA expenses, as a result of our recent restructuring of a number of engineering positions.

Sales and Marketing

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
Sales and marketing	$ 4,612	53.9%	$ 2,996	$ 11,463	37.5%	$ 8,334
As percentage of total revenue	41.9%		44.5%	39.5%		47.5%

Sales and marketing expenses consist primarily of salaries, commissions, promotional expenses and other costs relating to sales and marketing employees, as well as to technical support personnel associated with pre-sales activities such as building brand awareness, performing product and technical presentations and answering customers product and service inquiries. Sales and marketing expenses increased year-over-year in absolute dollars as a result of establishing strategic relationships with our existing and prospective enterprise customers, as well as increasing marketing program spending to support increased revenue activities driven by our recent acquisitions. We have also acquired 22 new sales and marketing employees from Synchrologic during the second quarter of fiscal 2004 and 11 from SSA. Sales and marketing expenses decreased as a percentage of revenue due to an increase in our total revenue. Excluding the effects of stock compensation, absolute sales and marketing expenses, as well as sales and marketing expenses as a percentage of revenue, are expected to increase for the next quarter as compared with those for the third quarter of fiscal 2004 due to the full-quarter impact of various expenses associated with the workforce acquired from SSA, as well as increase in variable costs associated with the anticipated increase in revenues. In addition, we intend to increase awareness and market presence of our existing and new products, services or technology over time, which may require us to substantially increase the amount we spend on sales and marketing in future periods. We expect that these expenses will continue to increase as we grow.

General and Administrative.

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	Percent Change	2003	2004	Percent Change	2003
	(In thousands, except percentages)					
General and administrative	$ 1,582	(0.3)%	$ 1,587	$ 5,894	47.9%	$ 3,986
As percentage of total revenue	14.4%		23.6%	20.3%		22.7%

General and administrative expenses consist primarily of salaries and other costs relating to administrative, executive and financial personnel and outside professional fees. The major factors for the increase in general and administrative spending in absolute dollars for the nine months ended April 30, 2004 include an increase of $1,101,000 in outside services brought about primarily by legal costs associated with our patent infringement lawsuits, net of $424,000 legal costs recorded within Litigation Settlement Gain, Net in the condensed consolidated statement of operations, and an increase of $385,000 in personnel-related costs as a result primarily of recent acquisitions of Synchrologic and SSA. General and administrative expenses decreased as a percentage of revenue due to an increase in our total revenue. We expect to incur minimal legal charges in the next quarter of fiscal 2004 and, as a result, general and administrative expenses, excluding the effects of stock compensation, are expected to decrease slightly for the next quarter as compared with the prior quarter s general and administrative expenses, despite the inclusion of a full-quarter s worth of SSA expenses.

Depending on the degree of the fluctuation of our stock price in the future, we may incur a significant variable accounting charge or a recovery of charges from prior quarters associated with certain employee stock options. The charge or the recovery may increase or decrease our total general and administrative costs in the next few quarters. The charge or the recovery may also further increase or offset our expected total cost of revenue, research and development and sales and marketing costs in the near future.

Amortization of Other Intangibles

	Three Months Ended April 30,			Nine Months Ended April 30,		
	2004	**Percent Change**	**2003**	**2004**	**Percent Change**	**2003**
	(In thousands, except percentages)					
Amortization of other intangibles	$ 679	3473.4%	$ 19	$ 1,003	5178.9%	$ 19
As percentage of total revenue	6.2%		0.3%	3.5%		0.1%

The increase in the amortization of other intangibles was primarily due to the impact of recently acquired intangibles from Starfish, Loudfire, Spontaneous Technology, Synchrologic and SSA. Based on acquisitions completed as of April 30, 2004, we expect the future amortization expense of other intangible assets is as follows (in thousands):

Three months ending July 31, 2004	$ 910
Fiscal year ending July 31,	
2005	3,553