

PHOENIX TECHNOLOGIES LTD  
Form 10-Q  
May 10, 2005  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2005

or

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number 0-17111

**PHOENIX TECHNOLOGIES LTD.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-2685985**  
(I.R.S. Employer  
Identification Number)

Edgar Filing: PHOENIX TECHNOLOGIES LTD - Form 10-Q

915 Murphy Ranch Road, Milpitas, CA 95035

(Address of principal executive offices, including zip code)

(408) 570-1000

(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 the latest practicable date.

Class	Number of Shares Outstanding at
	April 30, 2005
Common Stock, par value \$0.001	24,859,239

**Table of Contents**

**PHOENIX TECHNOLOGIES LTD.**

**FORM 10-Q**

**INDEX**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2005 and September 30, 2004</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2005 and 2004</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2005 and 2004</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	15
<b>Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u></b>	29
<b>Item 4. <u>Controls and Procedures</u></b>	30
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. <u>Legal Proceedings</u></b>	32
<b>Item 4. <u>Submission of Matters to A Vote of Security Holders</u></b>	33
<b>Item 6. <u>Exhibits</u></b>	34
<u>Signature</u>	35

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PHOENIX TECHNOLOGIES LTD.****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands, except per share amounts)**(Unaudited)*

	<b>March 31, 2005</b>	<b>September 30, 2004</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 45,422	\$ 38,898
Short-term investments and available for sale securities	13,498	20,925
Accounts receivable, net of allowances of \$976 and \$1,569 at March 31, 2005 and September 30, 2004, respectively	35,776	23,871
Prepaid royalties and maintenance	2,223	2,266
Deferred income taxes		370
Other current assets	1,574	3,632
	<u>          </u>	<u>          </u>
Total current assets	98,493	89,962
Property and equipment, net	4,287	4,519
Computer software costs, net	6,245	7,922
Goodwill	13,933	13,433
Intangible assets, net	403	437
Prepaid royalties - non current	1,115	2,221
Other assets	2,127	2,391
	<u>          </u>	<u>          </u>
Total assets	\$ 126,603	\$ 120,885
	<u>          </u>	<u>          </u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,168	\$ 2,188
Accrued compensation and related liabilities	6,810	5,535
Deferred revenue	6,040	9,642
Income taxes payable	3,032	3,136
Accrued restructuring charges - current	325	536
Other accrued liabilities	4,174	3,229
	<u>          </u>	<u>          </u>
Total current liabilities	21,549	24,266
Accrued restructuring charges - noncurrent	1,507	1,648
Other liabilities	2,040	1,942

Edgar Filing: PHOENIX TECHNOLOGIES LTD - Form 10-Q

Total liabilities	25,096	27,856
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.100 par value, 500 shares authorized, none issued or outstanding		
Common stock, \$0.001 par value, 60,000 shares authorized, 32,054 and 31,734 shares issued, 24,858 and 24,536 shares outstanding at March 31, 2005 and September 30, 2004, respectively	32	32
Additional paid-in capital	183,122	181,302
Deferred compensation	(538)	(777)
Retained earnings	10,025	4,793
Accumulated other comprehensive loss	(691)	(1,878)
Less: Cost of treasury stock (7,196 shares at March 31, 2005 and September 30, 2004)	(90,443)	(90,443)
Total stockholders' equity	101,507	93,029
Total liabilities and stockholders' equity	\$ 126,603	\$ 120,885

*See notes to unaudited condensed consolidated financial statements*

**Table of Contents****PHOENIX TECHNOLOGIES LTD.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share amounts)**(Unaudited)*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenues	\$ 27,044	\$ 20,672	\$ 53,220	\$ 39,172
Cost of revenues	4,328	4,042	8,564	7,656
Gross Margin	22,716	16,630	44,656	31,516
Operating expenses:				
Research and development	5,215	5,469	9,945	11,008
Sales and marketing	8,689	7,404	17,999	15,748
General and administrative	4,052	3,143	7,629	6,226
Amortization of acquired intangible assets	17	17	35	34
Stock-based compensation	60	53	132	105
Restructuring and related charges		(60)		(60)
Total operating expenses	18,033	16,026	35,740	33,061
Income (loss) from operations	4,683	604	8,916	(1,545)
Interest and other income, net	(44)	(528)	(741)	(367)
Income (loss) before income taxes	4,639	76	8,175	(1,912)
Income tax expense	1,649	683	2,943	1,133
Net income (loss)	\$ 2,990	\$ (607)	\$ 5,232	\$ (3,045)
Earnings (loss) per share:				
Basic	\$ 0.12	\$ (0.02)	\$ 0.21	\$ (0.12)
Diluted	\$ 0.12	\$ (0.02)	\$ 0.20	\$ (0.12)
Shares used in Earnings (loss) per share calculation:				
Basic	24,786	24,435	24,691	24,384
Diluted	25,873	24,435	25,546	24,384

*See notes to unaudited condensed consolidated financial statements*

**Table of Contents****PHOENIX TECHNOLOGIES LTD.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)**(Unaudited)*

	<b>Six Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Net income (loss)	\$ 5,232	\$ (3,045)
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	3,336	3,882
Stock-based compensation	133	105
Loss from disposal of fixed assets		268
Deferred income tax	370	(9)
Change in operating assets and liabilities:		
Accounts receivable	(11,905)	(4,750)
Prepaid royalties and maintenance	1,149	1,361
Other assets	2,322	123
Accounts payable	(1,021)	(663)
Accrued compensation and related liabilities	1,275	(2,052)
Deferred revenue	(3,602)	15,483
Income taxes	(104)	(1,033)
Accrued restructuring charges	(485)	(613)
Other accrued liabilities	1,177	(690)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,123)</b>	<b>8,367</b>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	85,737	86,939
Purchases of investments	(78,310)	(83,945)
Proceeds from the sale of fixed assets		38
Purchases of property and equipment	(1,394)	(593)
Acquisition of businesses, net of cash acquired	(500)	
<b>Net cash provided by investing activities</b>	<b>5,533</b>	<b>2,439</b>
Cash flows from financing activities:		
Proceeds from stock purchases under stock option and stock purchase plans	1,927	641
<b>Net cash provided by financing activities</b>	<b>1,927</b>	<b>641</b>
Effect of exchange rate changes on cash and cash equivalents	1,187	144
<b>Net increase in cash and cash equivalents</b>	<b>6,524</b>	<b>11,591</b>
Cash and cash equivalents at beginning of period	38,898	26,601

Cash and cash equivalents at end of period	\$ 45,422	\$
--	-----------	----