

BITSTREAM INC
Form 10-Q
November 14, 2003
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 September 30, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 0-21541

BITSTREAM INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: BITSTREAM INC - Form 10-Q

Delaware

(State or other jurisdiction of incorporation or organization)

04-2744890

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

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

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

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

On November 11, 2003, there were 8,551,263 shares of Class A Common Stock, par value \$0.01 per share issued, including 125,809 issued and designated as treasury shares, and no shares of Class B Common Stock, par value \$0.01 per share, issued or outstanding.

Table of Contents

INDEX

	<u>PAGE NUMBERS</u>
PART I. FINANCIAL INFORMATION	
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS	
<u>CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2003 AND DECEMBER 31, 2002</u>	2
<u>CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 and 2002</u>	3
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002</u>	4
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	5-12
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	13-24
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	25
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	25
PART II. OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	26
<u>ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS</u>	26
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	26
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	26
<u>ITEM 5. OTHER INFORMATION</u>	26-27
<u>ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K</u>	27
<u>SIGNATURES</u>	27

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

	September 30, 2003	December 31, 2002
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,902	\$ 4,828
Accounts receivable, net of allowance of \$42 at September 30, 2003 and \$15 at December 31, 2002	832	602
Income tax receivable		134
Prepaid expenses and other current assets	100	112
	<u> </u>	<u> </u>
Total current assets	5,834	5,676
	<u> </u>	<u> </u>
Property and equipment, net	355	271
	<u> </u>	<u> </u>
Other assets:		
Restricted cash	250	300
Goodwill	727	727
Investment in DiamondSoft, Inc.		748
Intangible assets	201	236
Other assets	1	6
	<u> </u>	<u> </u>
Total other assets	1,179	2,017
	<u> </u>	<u> </u>
Total assets	\$ 7,368	\$ 7,964
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 660	\$ 245
Accrued expenses	1,047	1,046
Current portion of deferred revenue	555	667
	<u> </u>	<u> </u>
Total current liabilities	2,262	1,958
	<u> </u>	<u> </u>
Long-term deferred revenue		6
	<u> </u>	<u> </u>
Total liabilities	2,262	1,964
	<u> </u>	<u> </u>
Stockholders equity :		
Preferred stock, \$0.01 par value		
Authorized 6,000 shares		
Issued and outstanding 0 at September 30, 2003 and December 31, 2002		
	85	85

Edgar Filing: BITSTREAM INC - Form 10-Q

Common stock, \$0.01 par value		
Authorized 30,500 shares		
Issued and outstanding 8,535 at September 30, 2003 and 8,475 at December 31, 2002		
Additional paid-in capital	32,490	32,408
Accumulated deficit	(27,109)	(26,133)
Treasury stock, at cost; 126 shares as of September 30, 2003 and December 31, 2002	(360)	(360)
	<u> </u>	<u> </u>
Total stockholders' equity	5,106	6,000
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 7,368	\$ 7,964
	<u> </u>	<u> </u>

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

Table of Contents

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

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2003	2002	2003	2002
Revenue:				
Software licenses	\$ 1,975	\$ 1,588	\$ 6,205	\$ 5,373
Services	327	259	882	820
Total revenue	2,302	1,847	7,087	6,193
Cost of revenue:				
Software licenses	587	430	1,735	1,238
Services	145	104	396	298
Total cost of revenue	732	534	2,131	1,536
Gross profit	1,570	1,313	4,956	4,657
Operating expenses:				
Marketing and selling	730	572	2,055	1,699
Research and development	966	1,077	2,968	3,027
General and administrative	469	298	1,467	1,059
Total operating expenses	2,165	1,947	6,490	5,785
Loss from operations	(595)	(634)	(1,534)	(1,128)
Other income:				
Gain on investment in DiamondSoft, Inc	399	5	591	47
Other income, net	10	18	21	60
Loss before provision for income taxes	(186)	(611)	(922)	(1,021)
Provision for income taxes	5	5	54	75
Net loss	\$ (191)	\$ (616)	\$ (976)	\$ (1,096)
Basic and diluted net loss per share	\$ (0.02)	\$ (0.07)	\$ (0.12)	\$ (0.13)
Basic and diluted weighted average shares outstanding	8,377	8,335	8,359	8,318

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

Table of Contents

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

	For the Nine Months	
	Ended September 30,	
	2003	2002
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (976)	\$ (1,096)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	145	240
Amortization	59	53
Loss on disposal of property and equipment	20	
Stock based compensation		(24)
Gain on investment in DiamondSoft, Inc.	(591)	(47)
Changes in operating assets and liabilities:		
Accounts receivable	(230)	143
Income tax receivable	134	
Prepaid expenses and other assets	17	15
Accounts payable	415	160
Accrued expenses	1	(40)
Deferred revenue	(118)	(34)
	<u> </u>	<u> </u>
Net cash used in operating activities	(1,124)	(630)
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of DiamondSoft stock	1,339	
Restricted cash	50	
Purchases of property and equipment	(249)	(82)
Additions to intangible assets	(24)	(78)
	<u> </u>	<u> </u>
Net cash provided by (used in) investing activities	1,116	(160)
	<u> </u>	<u> </u>