

PHOENIX TECHNOLOGIES LTD  
Form 10-Q  
August 13, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2004

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)

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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
	July 31, 2004
Common Stock, par value \$0.001	24,536,596

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

	<b>June 30, 2004</b>	<b>September 30, 2003</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 42,054	\$ 26,601
Short-term investments	20,667	20,645
Accounts receivable, net of allowances of \$1,643 and \$1,496 at June 30, 2004 and September 30, 2003, respectively	20,596	22,761
Prepaid royalties and maintenance	2,221	2,528
Deferred income taxes	542	537
Other current assets	3,417	4,708
	<u>          </u>	<u>          </u>
Total current assets	89,497	77,780
Property and equipment, net	4,826	7,131
Computer software costs, net	8,760	11,275
Goodwill, net	13,433	12,933
Intangible assets, net	455	507
Prepaid royalties - non current	2,771	4,437
Other assets	2,411	2,400
	<u>          </u>	<u>          </u>
Total assets	\$ 122,153	\$ 116,463
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 1,479	\$ 1,392
Accrued compensation and related liabilities	5,018	7,669
Deferred revenue	14,196	3,296
Income taxes payable	3,350	4,185
Accrued restructuring charges - current	736	1,910
Other accrued liabilities	3,390	4,156
	<u>          </u>	<u>          </u>
Total current liabilities	28,169	22,608
Accrued restructuring charges - non current	1,955	1,410
Other liabilities	1,448	1,054
	<u>          </u>	<u>          </u>
Total liabilities	31,572	25,072
Commitments and Contingencies (Note 6)		

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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, 31,732 and 31,477 shares issued, 24,536 and 24,281 shares outstanding at June 30, 2004 and September 30, 2003, respectively	32	31
Additional paid-in capital	181,222	179,730
Deferred compensation	(801)	(675)
Retained earnings	2,211	4,344
Accumulated other comprehensive loss	(1,640)	(1,596)
Less: Cost of treasury stock (7,196 shares at June 30, 2004 and September 30, 2003)	(90,443)	(90,443)
	<hr/>	<hr/>
Total stockholders' equity	90,581	91,391
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 122,153	\$ 116,463
	<hr/>	<hr/>

*See notes to unaudited consolidated financial statements*

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Revenues	\$ 23,100	\$ 20,535	\$ 62,272	\$ 64,146
Cost of revenues	3,718	4,451	11,475	13,172
Gross Margin	19,382	16,084	50,797	50,974
Operating expenses:				
Research and development	5,918	6,682	17,209	20,884
Sales and marketing	8,285	8,411	23,817	25,377
General and administrative	3,326	4,069	9,384	10,835
Amortization of acquired intangible assets	17	18	51	53
Stock-based compensation	72	61	177	192
Restructuring and related charges	199		139	6,014
Total operating expenses	17,817	19,241	50,777	63,355
Income (loss) from operations	1,565	(3,157)	20	(12,381)
Interest and other income, net	239	232	(128)	454
Income (loss) before income taxes	1,804	(2,925)	(108)	(11,927)
Income tax expense (benefit)	892	14,298	2,025	11,147
Net income (loss)	\$ 912	\$ (17,223)	\$ (2,133)	\$ (23,074)
Earnings (loss) per share:				
Basic	\$ 0.04	\$ (0.71)	\$ (0.09)	\$ (0.94)
Diluted	\$ 0.04	\$ (0.71)	\$ (0.09)	\$ (0.94)
Shares used in Earnings (loss) per share calculation:				
Basic	24,471	24,233	24,413	24,538
Diluted	24,814	24,233	24,413	24,538

*See notes to unaudited consolidated financial statements*

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	<b>Nine months ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,133)	\$ (23,074)
<b>Reconciliation to net cash provided by operating activities:</b>		
Depreciation and amortization	5,594	6,016
Stock-based compensation	177	192
Loss from disposal of fixed assets	268	44
Deferred income tax	(5)	12,189
<b>Change in operating assets and liabilities:</b>		
Accounts receivable	2,165	(5,511)
Prepaid royalties and maintenance	1,973	1,458
Other assets	412	(1,952)
Accounts payable	87	467
Accrued compensation and related liabilities	(2,651)	(1,291)
Deferred revenue	10,900	317
Income taxes	33	(4,120)
Accrued restructuring charges	(607)	1,912
Other accrued liabilities	(396)	(435)
<b>Net cash provided by (used in) operating activities</b>	<b>15,817</b>	<b>(13,788)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	143,122	294,389
Purchases of investments	(143,144)	(268,525)
Proceeds from the sale of fixed assets	38	
Purchases of property and equipment	(1,028)	(3,024)
Acquisition of businesses, net of cash acquired	(500)	
<b>Net cash provided by (used in) investing activities</b>	<b>(1,512)</b>	<b>22,840</b>
<b>Cash flows from financing activities:</b>		
Proceeds from stock purchases under stock option and stock purchase plans	1,191	960
Repurchase of common stock		(9,697)
<b>Net cash provided by (used in) financing activities</b>	<b>1,191</b>	<b>(8,737)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(43)</b>	<b>(108)</b>
<b>Net increase in cash and cash equivalents</b>	<b>15,453</b>	<b>207</b>
Cash and cash equivalents at beginning of period	26,601	25,156

Cash and cash equivalents at end of period	<u>\$ 42,054</u>	<u>\$ 25,363</u>
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*See notes to unaudited consolidated financial statements*



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**PHOENIX TECHNOLOGIES LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The consolidated financial statements as of June 30, 2004 and for the three and nine months ended June 30, 2004 and 2003 have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and in accordance with the Company's accounting policies as described in its latest Annual Report on Form 10-K filed with the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The consolidated balance sheet as of September 30, 2003 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003.

In the opinion of management, the unaudited consolidated financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the Company's financial pos