INTRUSION INC
Form 10-Q
August 12, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o	**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 0-20191

INTRUSION INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-1911917**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1101 East Arapaho Road, Suite 200, Richardson, Texas 75081

(Address of principal executive offices)

(Zip Code)

(972) 234-6400

(Registrant s telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report)

* * * * * * * * * *

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of shares outstanding of the Registrant s Common Stock, $0.01 par value, on July 31, 2009 was 11,704,535.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTRUSION INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)

		June 30, 2009		December 31, 2008
ASSETS				
Current Assets:				
Cash and cash equivalents	$	136	$	554
Accounts receivable		289		341
Inventories, net		6		20
Prepaid expenses		58		56
Total current assets		489		971
Property and equipment, net		134		169
Other assets		39		39
TOTAL ASSETS	$	662	$	1,179
LIABILITIES AND STOCKHOLDERS DEFICIT				
Current Liabilities:				
Accounts payable and accrued expenses	$	547	$	538
Loan payable to officer		835		480
Dividends payable		276		187
Deferred revenue		416		1,090
Total current liabilities		2,074		2,295
Commitments and contingencies				
Stockholders deficit:				
Preferred stock, $0.01 par value: Authorized shares 5,000				
Series 1 shares issued and outstanding 220 in 2009 and 260 in 2008 Liquidation preference of $1,212 as of June 30, 2009		778		918
Series 2 shares issued and outstanding 460 Liquidation preference of $1,241 as of June 30, 2009		724		724
Series 3 shares issued and outstanding 354 Liquidation preference of $834 as of June 30, 2009		504		504
Common stock, $0.01 par value:				
Authorized shares 80,000				
Issued shares 11,715 in 2009 and 11,648 in 2008				
Outstanding shares 11,705 in 2009 and 11,638 in 2008		117		116
Common stock held in treasury, at cost 10 shares		(362)		(362)
Additional paid-in capital		55,558		55,443
Accumulated deficit		(58,552)		(58,280)

Accumulated other comprehensive loss		(179)		(179)
Total stockholders deficit		(1,412)		(1,116)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$	662	$	1,179

See accompanying notes.

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INTRUSION INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net product revenue	$ 1,217	$ 1,132	$ 1,977	$ 1,431
Net customer support and maintenance revenue	75	151	171	315
Total revenue	1,292	1,283	2,148	1,746
Cost of product revenue	429	434	701	608
Cost of customer support and maintenance revenue	4	6	9	12
Total cost of revenue	433	440	710	620
Gross profit	859	843	1,438	1,126
Operating expenses:				
Sales and marketing	270	361	534	732
Research and development	251	195	617	710
General and administrative	273	230	532	496
Operating income (loss)	65	57	(245)	(812)
Interest expense, net	(15)	(16)	(26)	(22)
Income (loss) before income tax provision	50	41	(271)	(834)
Income tax provision				
Net income (loss)	$ 50	$ 41	$ (271)	$ (834)
Preferred stock dividends accrued	(39)	(40)	(78)	(105)
Net income (loss) attributable to common stockholders	$ 11	$ 1	$ (349)	$ (939)
Net income (loss) per share attributable to common stockholders, basic and diluted	$ 0.00	$ 0.00	$ (0.03)	$ (0.08)
Weighted average common shares outstanding:				
Basic	11,664	11,638	11,652	11,638
Diluted	13,117	11,638	11,652	11,638

See accompanying notes.

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INTRUSION INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended	
	June 30, 2009	June 30, 2008
Operating Activities:		
Net loss	$ (271)	$ (834)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	35	23
Stock-based compensation	50	29
Changes in operating assets and liabilities:		
Accounts receivable	52	(444)
Inventories	14	64
Prepaid expenses and other assets	(2)	10
Accounts payable and accrued expenses	22	(32)
Deferred revenue	(674)	(46)
Net cash used in operating activities	(774)	(1,230)
Financing Activities:		
Net activity under line of credit		(100)
Borrowings from officer	355	1,180
Proceeds from stock options exercised	1	
Net cash provided by financing activities	356	1,080
Net decrease in cash and cash equivalents	(418)	(150)
Cash and cash equivalents at beginning of period	554	362
Cash and cash equivalents at end of period	$ 136	$ 212
SUPPLEMENTAL DISCLOSURE OF NON CASH FINANCING ACTIVITIES:		
Preferred stock dividends accrued	$ 74	$ 106
Series 1 preferred stock converted to common stock	$ 140	$

See accompanying notes.

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INTRUSION INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

We develop, market and support a family of entity identification, regulated information compliance, data privacy protection, data leak prevention and network intrusion prevention/detection products. Our product families include: TraceCop for identity discovery and disclosure, Compliance Commander for regulated information compliance, leak protection and data privacy protection, and Intrusion SecureNet for network intrusion prevention and detection. Our products help protect critical information assets by quickly detecting, protecting, analyzing and reporting attacks or misuse of classified, private and regulated information for government and enterprise networks.

Our TraceCop products include: (1) databases containing IP addresses which are continually updated and used in the determination of the origination of cyber based attacks or other cyber based crimes; (2) analysis software used for the location of cyber based attacks and (3) data collected relative to the location of the crimes.

We market and distribute our products through a direct sales force to end-users, distributors and system integrators, managed service providers and value-added resellers. Our end-user customers include U.S. federal government entities, banks, credit unions, other financial institutions, foreign government entities and local government entities, hospitals and other healthcare providers, and academic institutions.

We were organized in Texas in September 1983 and reincorporated in Delaware in October 1995. For more than 15 years, we provided local area networking equipment and were known as Optical Data Systems or ODS Networks. On April 17, 2000, we announced plans to sell, or otherwise dispose of, our networking divisions, which included our Essential Communications division and our local area networking assets. On June 1, 2000, we changed our name from ODS Networks, Inc. to Intrusion.com, Inc., and our ticker symbol from ODSI to INTZ to reflect our focus on intrusion prevention and detection solutions, along with information compliance and data privacy protection products. On November 1, 2001, we changed our name from Intrusion.com, Inc. to Intrusion Inc.

Our principal executive offices are located at 1101 East Arapaho Road, Suite 200, Richardson, Texas 75081, and our telephone number is (972) 234-6400. Our website URL is www.intrusion.com. References to we , us , our or Intrusion Inc. refer to Intrusion Inc. and its subsidiaries Compliance Commander , SecureNet and TraceCop are trademarks of Intrusion Inc.

As of June 30, 2009, we had cash and cash equivalents of approximately $136,000, down from approximately $554,000 as of December 31, 2008 and a working capital deficit totaling $1.58 million. We used $243,000 of cash in operations in the second quarter 2009 and operating cash outflows may continue in 2009 and possibly beyond. As of June 30, 2009, in addition to cash and cash equivalents of $136,000, we had $177,000 in funding available under our $1.25 million line of credit at Silicon Valley Bank, and $1.4 million funding available from a written commitment to invest up to $1.5 million from G. Ward Paxton, our Chairman, President and Chief Executive Officer (the CEO). Based on projections of growth in revenue and net income in the coming quarters, and the borrowings available previously mentioned, we believe that we will have sufficient cash resources to finance our operations and expected capital expenditures for the next twelve months. We expect to fund our operations through Company profits, our line of credit, borrowings from the Company s CEO, and possibly additional investments of private equity and debt, which, if we are able to obtain, will have the effect of diluting our existing common stockholders, perhaps significantly. Any equity or debt financings, if available at all, may be on terms which are not favorable to us and, in the case of equity financings, may result in dilution to our stockholders. If our operations do not generate positive cash flow in the upcoming year, or if we are not able to obtain additional debt or equity financing on terms and conditions acceptable to us, if at all, we may be unable to implement our business plan, fund our liquidity needs or even continue our operations.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Item 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The December 31, 2008 balance sheet was derived from audited financial statements, but does not include all the disclosures required by accounting principles generally accepted in the United States. However, we believe that the disclosures are adequate to make the information presented not misleading. In our opinion, all the adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. The results of operations for the three and six month periods ended June 30, 2009 are not necessarily indicative of the results that may be achieved for the full fiscal year or for any future period. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2008, filed with the U.S. Securities and Exchange Commission (the

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SEC) on March 27, 2009.

The Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued expenses, and dividends payable approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of loans payable to officer also approximates fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

3. Inventories (In thousands)

	June 30, 2009	December 31, 2008
Inventories consist of:		
Finished goods	$ 57	$ 67
Demonstration systems	1	5
Reserve for obsolete inventory	(52)	(52)
Net inventory	$ 6	$ 20

4. Loan Payable to Officer

On January 30, 2008, we entered into a revolving promissory note to borrow up to $700,000 from G. Ward Paxton, the Company s Chairman, President and Chief Executive Officer. Under the terms of the note, the Company may borrow, repay and reborrow on the loan as needed up to an outstanding principal amount of $700,000 at any date. All outstanding principal and accrued but unpaid interest was originally due on December 31, 2008 but was extended on March 19, 2009 to mature on March 31, 2010. As of June 30, 2009, we had borrowings of $700,000 outstanding from the note with accrued interest payable of $16,000. On March 20, 2008, we received a written commitment from our Chief Executive Officer to invest up to an additional $1.5 million in the Company until March 2009, should such funding be required by the Company. This commitment to continue to advance additional funds as needed was extended on November 7, 2008 to mature in March 2010. As of June 30, 2009, we had borrowings of $135,000 outstanding under the commitment. Amounts the Company borrows under the note and the commitment accrue interest at a floating rate per annum equal to the announced prime rate of Silicon Valley Bank (SVB) plus 1% and are unsecured.

5. Line of Credit

On March 29, 2006, we entered into a Loan and Security Agreement with Silicon Valley Bank (SVB) to establish a $1.0 million line of credit with SVB (the 2006 Credit Line). On June 30, 2008, we entered into an Amended and Restated Loan and Security Agreement with SVB to, among other things, replace the 2006 Credit Line with a $2.5 million line of credit (the 2008 Credit Line). On June 28, 2009, we entered into the First Amendment to Amended and Restated Loan and Security Agreement (the Loan Agreement) with SVB to replace the 2008 Credit Line with a $1.25 million line of credit (the Current Line of Credit). Our obligations under the Loan Agreement are secured by substantially all of our assets, including all of our intellectual property. In addition, G. Ward Paxton, the Company s Chief Executive Officer, has established a Guaranty Agreement with SVB for all outstanding balances under the Current Line of Credit. Borrowings under the Current Line of Credit are based on advances (each an Advance) against certain of our accounts receivable that are approved by SVB (each an Eligible Account). SVB may make an Advance of up to eighty percent (80%) of each Eligible Account, or such other percentage SVB may determine in its sole discretion. Each Advance is subject to a finance charge calculated as a daily rate that is based on a 360-day annual rate of the greater of the prime rate or 5.25%, plus 2.0%. Finance charges are payable at the same time its related Advance is due. Each Advance is also subject to a monthly collateral handling fee of 0.5% of all outstanding Advances, depending on certain qualifying financial factors specified in the Loan Agreement. The collateral handling fee is payable at the same time its related Advance is due. Each Advance must be repaid at the earliest of (a) the date that the Eligible Account related to the Advance is paid, (b) the date the Eligible Account is no longer eligible under the Amended and Restated Loan Agreement, or (c) the date on which any Adjustment (as defined in the Loan Agreement) is asserted to the Eligible Account. On June 27, 2010, the Loan Agreement terminates and all outstanding Advances, accrued but unpaid finance charges, outstanding collateral handing fees, and other amounts become due under the Amended and Restated Loan Agreement and related documents. We have certain non-financial and financial covenants, including a liquidity coverage ratio and a rolling EBITDA computation, as defined in the Loan Agreement. We have no borrowings outstanding under the Current Line of Credit as of June 30, 2009 and had borrowings available of $177,000.

6. Accounting for Stock-Based Compensation

During the three month period ended June 30, 2009 and 2008, the Company granted 15,000 stock options to employees and directors in each period. The Company recognized $33,000 and $24,000, respectively, stock-based compensation expense for the

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three month periods ended June 30, 2009 and 2008. During the six month period ended June 30, 2009 and 2008, the Company granted 491,000 and 442,000, respectively, stock options to employees and directors. The Company recognized $50,000 and $29,000, respectively, stock-based compensation expense for the six month period ended June 30, 2009 and 2008.

During the three month period ended June 30, 2009 and 2008, 3,001and 0, respectively, options were exercised under the 2005 Plan. During the six month period ended June 30, 2009 and 2008, 3,001and 0, respectively, options were exercised under the 2005 Plan.

Valuation Assumptions

The fair values of option awards were estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions:

	For Three Months Ended June 30, 2009	For Three Months Ended June 30, 2008	For Six Months Ended June 30, 2009	For Six Months Ended June 30, 2008
Weighted average grant date fair value	$ 0.39	$ 0.16	$ 0.26	$ 0.17
Weighted average assumptions used:				
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.1%	3.4%	1.9%	2.6%
Expected volatility	177.0%	111.0%	163.5%	107.1%
Expected life (in years)	5.0	5.0	4.89	5.0

Expected volatility is based on historical volatility and in part on implied volatility. The expected life considers the contractual term of the option as well as historical exercise and forfeiture behavior. The risk-free interest rate is based on the rates in effect on the grant date for U.S. Treasury instruments with maturities matching the relevant expected term of the award. Options granted to non-employees are valued using the fair market value on each measurement date of the option.

7. Preferred Stock

During the three month period ended June 30, 2009, 39,696 shares of our 5% preferred stock were converted into 63,129 shares of our common stock. At June 30, 2009 there are 220,000 shares of our 5% preferred stock outstanding, convertible into 349,871 shares of common stock.

8. Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributable to common stockholders for the period by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and dilutive common stock equivalents outstanding for the period. Our common stock equivalents include all common stock issuable upon conversion of preferred stock and the exercise of outstanding options and warrants. The aggregate number of common stock equivalents excluded from the diluted earnings per share calculation for the three month periods ending June 30, 2009 and 2008 are 1,848,486 and 4,227,826, respectively as they are antidilutive. In addition, for the six month period ending June 30, 2009 and 2008, 4,050,118 and 4,227,826 common stock equivalents are not included in the diluted loss per share as they are antidilutive.

9. Concentrations

Our operations are concentrated in one area security software/entity identification. Sales to the U.S. Government through direct and indirect channels totaled 94.2% of total revenues for the second quarter of 2009 compared to 86.5% of total revenues the second quarter of 2008. During the second quarter of 2009 approximately 94.0% of total revenues are attributable to three government customers compared to approximately 82.3% of total revenues attributable to two government customers in the second quarter of 2008. There were no individual commercial customers in the second quarter of 2009 or 2008 that exceeded 10% of total revenues for that quarter. Our similar product and service offerings are not viewed as individual segments, as our management analyzes the business as a whole and expenses are not allocated to each product offering.

10. Commitments and Contingencies

We are subject to legal proceedings and claims that arise in the ordinary course of business. We do not believe that the outcome of those matters will have a material adverse affect on our consolidated financial position, operating results or cash flows. However, there can be no assurance such legal proceedings will not have a material impact.

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11. Dividends Payable

During the quarter ended June 30, 2009, we accrued $15,000 in dividends to the holders of our 5% Preferred Stock, $14,000 in dividends to the holders of our Series 2 5% Preferred Stock and $10,000 in dividends to the holders of our Series 3 5% Preferred Stock. As of June 30, 2009, we have $276,000 in accrued and unpaid dividends included in other current liabilities. Delaware law provides that we may only pay dividends out of our capital surplus or, if no surplus is available, out of our net profits for the fiscal year the dividend is declared and/or the preceding fiscal year. We have not had net profits for the last two fiscal years and did not have sufficient capital surplus, defined as the amount by which our net assets exceed our stated capital, based on par value of our outstanding shares as provided by Delaware law. These dividends continue to accrue on all our outstanding shares of preferred stock, regardless of whether we are legally able to pay them. Because we were unable to pay dividends on our preferred stock, we began accruing an additional late fee penalty of 18% per annum on the unpaid dividends for the Series 2 Preferred Stock and Series 3 Preferred Stock. Total penalties accrued during the quarter ended June 30, 2009 were approximately $4,000. Our CEO, CFO and one member of our Board of Directors, who own preferred stock, have waived the late fee penalty so we have recorded approximately $2,000 as contributed capital during the quarter related to these waivers. In addition to this late penalty, the holders of our Series 2 Preferred Stock and Series 3 Preferred Stock could elect to present us with written notice of our failure to pay dividends as scheduled, in which case we would have 45 days to cure such a breach. In the event that we failed to cure the breach, the holders of these shares of preferred stock would then have the right to require us to redeem their shares of preferred stock for a cash amount calculated in accordance with their respective certificates of designation. If we were required to redeem all shares of Series 2 Preferred Stock and Series 3 Preferred Stock as of July 31, 2009, the aggregate redemption price we would owe would be $2.2 million.

12. Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of SFAS 165 as of June 30, 2009. The adoption of these provisions did not have a significant impact on the Company s financial statements.

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature. SFAS 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. This will have an impact on the Company s financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS 168.

13. Subsequent Events

Management performed an evaluation of the Company s activities through August 12th, 2009, and has concluded that there are no significant subsequent events requiring disclosure through the date these financial statements were issued.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This Quarterly Report on Form 10-Q, including, without limitation, the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such forward-looking statements are generally accompanied by words such as estimate, expect, believe, should, would, could, anticipate, may or other words that conve of future events or outcomes. These statements relate to future events or to our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations, which we describe in more detail elsewhere in this Quarterly Report on Form 10-Q under the heading Factors That May Affect Future Results of Operations, and in our 2008 Annual Report on Form 10-K in Item 1 Description of Business include, but are not limited to:

- insufficient cash to operate our business and inability to meet our liquidity requirements;
- loss of revenues due to the failure of our newer products to achieve market acceptance;

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- our need to continue current revenues levels in order to sustain profitability;
- concentration of our revenues from U.S. government entities and the possibility of loss of one of these customers and the unique risks associated with government customers;
- our dependence on sales made through indirect channels;
- the challenge of selling our products internationally;
- our dependence on equity or debt financing provided primarily by our Chief Executive Officer in order to meet our cash flow requirements;
- the effect that payment of accrued dividends on our preferred stock has on our cash resources and the substantial dilution upon the conversion or redemption of our preferred stock and exercise of outstanding warrants;
- the impact of conversion of preferred stock or exercise of warrants on the price of our common stock;
- the ability of our preferred stockholders and lenders to hinder additional financing; and
- the influence that our management and larger stockholders have over actions taken by the Company.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. These forward-looking statements and other statements made elsewhere in this report are made in reliance on the Private Securities Litigation Reform Act of 1995. Any forward-looking statement you read in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. The section below entitled Factors That May Affect Future Results of Operations sets forth and incorporates by reference certain factors that could cause actual future results of the Company to differ materially from these statements.

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Results of Operations

The following table sets forth, for the periods indicated, certain financial data as a percentage of net revenues. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net product revenue	94.2%	88.2%	92.1%	82.0%
Net customer support and maintenance revenue	5.8	11.8	7.9	18.0
Total revenue	100.0	100.0	100.0	100.0
Cost of product revenue	33.2	33.8	32.6	34.8
Cost of customer support and maintenance revenue	0.3	0.5	0.4	0.7
Total cost of revenue	33.5	34.3	33.0	35.5
Gross profit	66.5	65.7	67.0	64.5
Operating expenses:				
Sales and marketing	20.9	28.2	24.9	41.9
Research and development	19.5	15.2	28.7	40.7
General and administrative	21.1	17.9	24.8	28.4
Operating income (loss)	5.0	4.4	(11.4)	(46.5)
Interest expense	(1.1)	(1.2)	(1.2)	(1.3)
Income (loss) before income tax provision	3.9	3.2	(12.6)	(47.8)
Income tax provision				
Net income (loss)	3.9%	3.2%	(12.6)%	(47.8)%
Preferred stock dividends accrued	(3.0)	(3.1)	(3.6)	(6.0)