

BITSTREAM INC
Form 10-Q
November 14, 2008
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, 2008

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)

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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 and zip code)

(617) 497-6222

(Registrant's telephone number, including area code)

Indicate by checkmark 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 (the Exchange Act) 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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

On November 12, 2008, there were 9,522,005 shares of Class A Common Stock, par value \$0.01 per share issued and outstanding, and no shares of Class B Common Stock, par value \$0.01 per share, issued or outstanding.

Table of Contents

INDEX

	PAGE NUMBERS
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS</u>	
<u>UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007</u>	2
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007</u>	3
<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007</u>	4
<u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	5
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	21
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	21
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	22
<u>ITEM 1A. RISK FACTORS</u>	22
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	25
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	25
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	25
<u>ITEM 5. OTHER INFORMATION</u>	26
<u>ITEM 6. EXHIBITS</u>	26
<u>SIGNATURES</u>	26

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BITSTREAM INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)****(Unaudited)**

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,200	\$ 16,420
Accounts receivable, net of allowance of \$41 and \$65 at September 30, 2008 and December 31, 2007, respectively	1,844	2,245
Short-term investments, prepaid expenses and other current assets	618	465
Total current assets	17,662	19,130
Property and equipment, net	475	569
Other long-term assets:		
Restricted cash	150	150
Goodwill	727	727
Intangible assets, net	71	67
Total other assets	948	944
Total assets	\$ 19,085	\$ 20,643
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,061	\$ 1,137
Accrued payroll and other compensation	1,041	1,232
Other accrued expenses	558	527
Deferred revenue	1,795	1,720
Total current liabilities	4,455	4,616
Deferred rent	0	40
Total liabilities	4,455	4,656
Commitments and contingencies (Note 4)		
Stockholders' equity :		
Preferred stock, \$0.01 par value, Authorized 6,000 shares, Issued and outstanding 0 at September 30, 2008 and December 31, 2007		

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Common stock, \$0.01 par value, Authorized 30,000 Class A and 500 Class B. Class A shares Issued 10,116 and 10,066, and outstanding 9,522 and 9,921 at September 30, 2008 and December 31, 2007, respectively. Class B Issued and outstanding 0 at September 30, 2008 and December 31, 2008	101	101
Additional paid-in capital	36,101	36,461
Accumulated deficit	(18,035)	(19,694)
Treasury stock, at cost 594 and 145 shares at September 30, 2008 and December 31, 2007, respectively	(3,537)	(881)
 Total stockholders equity	 14,630	 15,987
Total liabilities and stockholders equity	\$ 19,085	\$ 20,643

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

Table of Contents

BITSTREAM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue:				
Software licenses	\$ 4,222	\$ 4,699	\$ 14,563	\$ 14,189
Services	1,261	1,108	3,807	3,146
Total revenue	5,483	5,807	18,370	17,335
Cost of revenue:				
Software licenses	1,696	1,779	5,555	5,190
Services	598	434	1,782	1,410
Cost of revenue	2,294	2,213	7,337	6,600
Gross profit	3,189	3,594	11,033	10,735
Operating expenses:				
Marketing and selling	979	974	3,358	2,937
Research and development	1,334	1,223	4,048	3,514
General and administrative	713	666	2,072	1,870
Total operating expenses	3,026	2,863	9,478	8,321
Operating income	163	731	1,555	2,414
Interest and other income, net	30	156	160	424
Total other income and expense	30	156	160	424
Income before provision for income taxes	193	887	1,715	2,838
Provision for income taxes	6	11	56	21
Net income	\$ 187	\$ 876	\$ 1,659	\$ 2,817
Basic net income per share	\$ 0.02	\$ 0.09	\$ 0.17	\$ 0.29
Diluted net income per share	\$ 0.02	\$ 0.08	\$ 0.16	\$ 0.26
Basic weighted average shares outstanding	9,521	10,036	9,621	9,756
Diluted weighted average shares outstanding	10,160	10,963	10,332	10,992

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

Table of Contents

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

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,659	\$ 2,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	225	188
Amortization	29	34
Share based compensation	540	385
Changes in operating assets and liabilities:		
Accounts receivable	401	(156)
Prepaid expenses and other assets	(153)	3
Accounts payable	(76)	312
Accrued payroll and other compensation	(191)	(407)
Other accrued expenses	31	11
Deferred revenue	75	244
Deferred rent	(40)	(31)
Net cash provided by operating activities	2,500	3,400
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(131)	(369)
Additions to intangible assets	(33)	(23)
Net cash used in investing activities	(164)	(392)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(4,118)	
Proceeds from exercise of stock options/warrants	562	1,679
Net cash (used in) provided by financing activities	(3,556)	1,679
Net (decrease) increase in cash and cash equivalents	(1,220)	4,687
Cash and cash equivalents, beginning of period	16,420	10,542
Cash and cash equivalents, end of period	\$ 15,200	\$ 15,229

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

Table of Contents

BITSTREAM INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations and Significant Accounting Policies

Bitstream Inc. (together with its subsidiaries, Bitstream or the Company) is a software development company focused on bringing unique software products to a wide variety of markets. Today, our core software products include award-winning fonts and font rendering technologies, mobile browsing and messaging technologies and variable data publishing and Web-to-print technologies.

We are subject to risks common to technology-based companies, including dependence on key personnel, rapid technological change, competition from alternative product offerings and larger companies, and challenges to the development and marketing of commercial products and services. We have also experienced net losses in prior years and as of September 30, 2008, have an accumulated deficit of \$18 million.

(a) Use of Estimates

The accompanying condensed consolidated financial statements reflect the application of certain accounting policies as described in this note and elsewhere in the accompanying condensed consolidated financial statements and notes. The preparation of the accompanying condensed consolidated financial statements requires the use of certain estimates by us in determining our assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

(b) Basis of Presentation

Our condensed consolidated financial statements presented herein, without audit, have been prepared pursuant to the rules of the Securities and Exchange Commission (the SEC) for quarterly reports on Form 10-Q and do not include all of the information and footnote disclosures required by generally accepted accounting principles (GAAP). The balance sheet information at December 31, 2007 has been derived from our audited consolidated financial statements but does not include all disclosures required by GAAP. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2007 included in our Annual Report on Form 10-K, which was filed with the SEC on March 28, 2008. The condensed consolidated balance sheet as of September 30, 2008, the condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007, and the condensed consolidated statement of cash flows for the nine months ended September 30, 2008 and 2007, and the notes to each are unaudited, but in the opinion of management include all adjustments necessary for a fair presentation of the condensed consolidated financial position, results of operations, and cash flows of the Company for these interim periods.

The results of operations for the nine months ended September 30, 2008 may not necessarily be indicative of the results to be expected for the year ending December 31, 2008.

Table of Contents**BITSTREAM INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(c) Property and Equipment (in thousands)**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Property and equipment consists of the following:

	September 30, 2008	December 31, 2007
Equipment	\$ 2,023	\$ 1,936
Purchased software	470	456
Furniture and fixtures	376	366
Leasehold improvements	143	143
	3,012	2,901
Less Accumulated depreciation and amortization	2,537	2,332
Property and equipment, net	\$ 475	\$ 569

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Asset Classification	Estimated Useful Life
Equipment	3 Years
Purchased software	3 Years
Furniture and fixtures	5 Years
Leasehold improvements	Life of lease

Depreciation expense for the three months ended September 30, 2008 and 2007 was \$74 and \$71, respectively. Depreciation expense for the nine months ended September 30, 2008 and 2007 was \$225 and \$188, respectively. During the nine months ended September 30, 2008, we disposed of \$20 of fully depreciated assets which were no longer in service.

(d) Off-Balance Sheet Risk and Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. We place a majority of our cash investments in one highly-rated financial institution, the balance of which may exceed federally insured deposit limits. We have not experienced significant losses related to receivables from any individual customers or groups of customers in any specific industry or by geographic area. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by us to be inherent in our accounts receivable. At September 30, 2008, no customer accounted for 10% or more of our accounts receivable. We do not have any off-balance sheet risks as of September 30, 2008. At December 31, 2007, two customers accounted for 16% and 14% of our accounts receivable, respectively. No single customer accounted for 10% or more of our revenue for the three and nine months ended September 30, 2008 or 2007.

Table of Contents

BITSTREAM INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(e) Goodwill and Other Intangible Assets (in thousands)

We follow the accounting and reporting requirements for goodwill and other intangible assets as required by SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Under SFAS 142, goodwill and indefinite-lived intangible assets are not amortized, but are required to be reviewed annually for impairment, or more frequently, if impairment indicators arise. We have determined that we do not have separate reporting units and thus goodwill is combined and tested for impairment based upon an enterprise wide valuation. Separable intangible assets that have finite lives are amortized over their useful lives. The components of the Company's amortized intangible assets follow:

1,349,904

¹ Annual 2016 financial information is derived from audited financial statements.

* Long-term Debt consist of outstanding amounts on our Credit Facility less unamortized deferred financing cost. Outstanding amounts on our Credit Facility were 447,000 as of March 31, 2017 and December 31, 2016.

NORDIC AMERICAN TANKERS LIMITED

	Three months ended Mar. 31, 2017 (unaudited)	Twelve months ended Dec. 31, 2016 (unaudited) ¹
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW		
Amounts in USD '000		
Net Cash Provided by (Used in) Operating Activities	27,313	127,786
Investment in Vessels	(33,393)	(188,407)
Investment in Nordic American Offshore Ltd	(10,000)	0
Other	0	(87)
Return of Investments	0	1,685
Net Cash Provided by (Used in) Investing Activities	(43,393)	(186,809)
Net Proceeds from Issuance of Common Stock	(47)	120,068
Proceeds from Use of Credit Facility	0	117,000
Credit Facility Costs	0	(130)
Cash Dividends Paid to Shareholders	(20,392)	(125,650)
Net Cash Provided by (Used in) Financing Activities	(20,440)	111,288
Net Increase (Decrease) in Cash and Cash Equivalents	(36,519)	52,266
Effect of exchange rate changes on Cash	(6)	15
Cash and Cash Equivalents at Beginning of Period	82,170	29,889
Cash and Cash Equivalents at End of Period	45,644	82,170

¹ Annual 2016 financial information is derived from audited financial statements.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES	Three Months Ended			Twelve Months ended
	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016	Dec. 31, 2016
Amounts in USD '000	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Voyage Revenue	94,537	90,425	106,752	357,451
Settlement	0	0	0	5,328
Voyage Expense	(39,340)	(37,883)	(30,018)	(125,987)
Net Voyage Revenue	55,197	52,542	76,734	236,792

	Three Months Ended		Twelve Months ended	
	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016	Dec. 31, 2016
Net Operating Income	5,104	4,366	33,552	53,341
Depreciation Expense	24,770	24,568	21,626	90,889
Share Based Compensation and Pension Cost	651	(700)	707	2,273
Adjusted Net Operating Earnings ⁽²⁾	30,525	28,234	55,884	146,503

Net voyage revenues represents voyage revenues less voyage expenses such as bunker fuel, port fees, canal tolls and brokerage commissions. Net voyage revenues is included because certain investors use this data to measure a shipping company's financial performance. Net voyage revenues is not required by accounting principles generally accepted in the United States and should not be considered as an alternative to net income or any other indicator of the Company's performance required by accounting principles generally accepted in the United States.

Adjusted Net Operating Earnings represents income from vessel operations before depreciation, non-cash administrative charges and net financing costs. Adjusted Net Operating Earnings is included because certain investors use this data to measure a shipping company's financial performance. Adjusted Net Operating Earnings is not required by accounting principles generally accepted in the United States and should not be considered as an alternative to net income or any other indicator of the Company's performance required by accounting principles generally accepted in the United States. The line item was previously referred to as "Operating Cash Flow"

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this press release may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

The Company desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect," "pending" and similar expressions identify forward-looking statements.

The forward-looking statements in this press release are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, our management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including fluctuations in charter rates and vessel values, changes in demand in the tanker market, as a result of changes in OPEC's petroleum production levels and world wide oil consumption and storage, changes in our operating expenses, including bunker prices, drydocking and insurance costs, the market for our vessels, availability of financing and refinancing, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, vessels breakdowns and instances of off-hires and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, including the prospectus and related prospectus supplement, our Annual Report on Form 20-F, and our reports on Form 6-K.

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