PHOENIX TECHNOLOGIES LTD
Form DEFA14A
January 25, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
(Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
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o Soliciting Material Pursuant to §240.14a-12

phoenix technologies ltd.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

This filing by Phoenix Technologies Ltd. (the Company) includes the following documents:

Press release issued by the Company on January 25, 2007

Letter mailed to stockholders of the Company on or about January 25, 2006 (the 10-K Cover) along with the Company s Form 10-K for the fiscal year ended September 30, 2006 and its definitive proxy statement for its 2007 annual meeting

Cover letter mailed to certain stockholders of the Company on or about January 25, 2006 along with the Company s Form 10-K for the fiscal year ended September 30, 2006 and its definitive proxy statement for its 2007 annual meeting

Transcript of the Company s earnings webcast held on January 25, 2007

Press Release:

news release

Contacts:

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Phoenix Technologies Ltd. Reports Results for Q1 2007
Revenue Up 17% Over Prior Quarter, Operating Expense Down 27%

MILPITAS, CA: January 25, 2007 Phoenix Technologies Ltd. (NASDAQ: PTEC) today reported its fiscal 2007 first quarter financial results.

Net revenues for the three months ended December 31, 2006 were $9.7 million, consisting of $7.9 million of license revenue and $1.8 million of service revenue. These results compare to net revenues of $8.3 million reported in the fourth quarter of fiscal 2006 and $18.6 million in the same period one year ago.

The company also reported gross margins of $7.2 million, an increase of 36% over the quarter ended September 30, 2006, and operating expenses of $15.1 million, a reduction of 27%.

In accordance with the Company s September 2006 decision that it would no longer license products on a fully paid-up basis, no paid-up license revenue was reported in the first quarter of fiscal 2007. This compares to $1.3 million (15% of net revenues) in the fourth quarter of fiscal year 2006 and $11.8 million (63% of net revenues) in the previous year s first quarter.

On a GAAP basis, the net loss in the first quarter of fiscal 2007 was ($8.0) million, or ($0.31) per share, compared to a net loss of ($14.3) million, or ($0.57) per share, for the

fourth quarter of fiscal 2006 and net loss of ($7.9) million, or ($0.32) per share, for the first quarter of fiscal 2006.
On a non-GAAP basis, in the first quarter of fiscal 2007, Phoenix reported a net loss of ($4.7) million, or ($0.18) per share, an improvement of $6.0 million or $0.24 per share from the net loss of ($10.7) million, or ($0.42) per share that the company had reported for the fourth quarter of fiscal 2006. Total non-GAAP adjustments in the first quarter of fiscal year 2007 were $3.3 million compared to $3.6 million of non-GAAP adjustments in the fourth quarter of fiscal year 2006. These adjustments include non-cash stock compensation expense as required according to Statement of Financial Accounting Standards (SFAS 123R), restructuring costs including severance and other related costs as well as costs associated with several closed facilities. These non-GAAP adjustments are more fully described in the attached reconciliation between net loss on a GAAP basis and non-GAAP net loss provided in the accompanying financial statements.

While the new team has only been in place at Phoenix for four months we have achieved all of the short term goals established at the beginning of the financial year that we described to investors on our November conference call, said Woody Hobbs, president and chief executive officer. We achieved a 13% increase in our license revenue compared to the September quarter despite the elimination of fully paid-up licenses. Our service revenues increased by 34% from the September quarter and were up almost 250% from the same quarter a year earlier. These accomplishments reflect the success of our sales and pricing initiatives, and give us confidence that we now have greater certainty of our future revenue as well.

We successfully completed the restructuring we announced in November, and we met our target of lowering our headcount to 334 employees as of January 1, 2007. We therefore are now confident that we will achieve our announced objective of having our total above the line expenses including cost of goods fall below $15 million for the second fiscal quarter. We believe our shareholders will be pleased to hear that we feel we are completely on track with our turnaround plan for Phoenix, and that we are more confident than ever about all the beliefs regarding the company s potential that we expressed on the last quarterly conference call, concluded Hobbs.

Phoenix Technologies cash and short-term investments, as of December 31, 2006, were $50.6 million compared to $60.3 million at September 30, 2006.

Conference Call

The Company will conduct its regularly scheduled financial announcement conference call on Thursday, January 25, 2007 at 5:30 a.m. PST. Investors are invited to listen to a live audio web cast of the quarterly conference call on the investor relations section of the Company s website at www.phoenix.com. Alternatively investors can listen to the conference call via telephone at 800-289-0546 (U.S/Canada) or 913-981-5534 (international). An audio replay of the conference call will also be available approximately two hours after the conclusion of the call and will be available until Tuesday, January 30, 2007, at 8:59 p.m. PST. The audio replay can be accessed by dialing 888-203-1112 (U.S./Canada) or 719-457-0820 (international) and entering conference call ID 9528841.

About Phoenix

Phoenix Technologies Ltd. (NASDAQ: PTEC) is the global market leader in system firmware that provides the most secure foundation for today s computing environments. The Company established industry leadership with its original BIOS product in 1983, and today has 149 technology patents, has shipped in over one billion systems, and continues to ship in over 125 million new systems each year. The company s breakthrough solution, TrustedCore, enables hardware vendors to bring secure devices to market with the latest advances in Microsoft operating systems. The PC industry s top builders and specifiers trust Phoenix to pioneer open standards and deliver innovative solutions to help them accelerate time to market, differentiate products and increase profits. Phoenix is headquartered in Milpitas, California with offices worldwide. For more information, visit www.phoenix.com.

This press release contains a non-GAAP calculation of operating expenses, net loss and net loss per share, which excludes stock-based compensation expense, restructuring charges, as well as other items. The Company s management believes this non-GAAP financial measure provides meaningful supplemental information regarding our performance that is indicative of the Company s core operating results and facilitates comparisons of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and budgeting purposes. A reconciliation between operating expenses, net loss and net loss per share on a GAAP basis and non-GAAP operating expenses, net loss and net loss per share is provided in the accompanying financial statements.

Availability of Definitive Proxy Statement:

In connection with its 2007 annual meeting of stockholders, Phoenix Technologies Ltd. filed a notice of annual meeting and a definitive proxy statement with the Securities and Exchange Commission (the SEC) on January 25, 2007. The notice of annual meeting and the definitive proxy statement will be mailed to stockholders on or about January 25, 2007. Investors and stockholders can obtain free copies of the definitive proxy statement, the notice of annual meeting, and other documents when they become available, by contacting investor relations at investor_relations@phoenix.com, or by mail to Phoenix Corporation Investor Relations, c/o Sapphire Investor Relations LLC, 150 Broadway, Suite 808, New York, NY 10038, or by telephone at 1-212-766-1800. In addition, documents filed with the SEC by Phoenix Technologies Ltd. are available free of charge at the SEC s website at www.sec.gov.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995:

With the exception of historical information, the statements set forth above include forward-looking statements that involve risk and uncertainties. All forward-looking statements included in this document are based upon information available to the Company as of the date hereof, and the Company assumes no obligation to update any such forward-looking statement. Factors that could cause actual results to differ materially from those in the forward looking statements are discussed in the Company s filings with the Securities and Exchange Commission, including its recent filings on Form 10-K, filed December 14, 2006.

PHOENIX TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(Unaudited)

	December 31, 2006	September 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	25,126	34,743
Marketable Securities	25,485	25,588
Accounts receivable, net of allowances	5,924	8,434
Prepaid royalties and maintenance	68	111
Other current assets	4,038	4,052
Total current assets	60,641	72,928
Property and equipment, net	3,714	4,247
Purchased Technology and Intangible assets, net	1,167	1,458
Goodwill	14,433	14,433
Other assets	2,017	2,094
Total assets	$ 81,972	$ 95,160
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,471	$ 3,072
Accrued compensation and related liabilities	3,151	3,844
Deferred revenue	5,152	7,584
Income taxes payable	9,114	9,041
Accrued restructuring charges current	2,448	3,287
Other accrued liabilities	2,522	3,605
Total current liabilities	23,858	30,433
Accrued restructuring charges noncurrent	941	1,166
Other liabilities	3,324	3,385
Total liabilities	28,123	34,984
Stockholders equity:		
Preferred stock		
Common stock	35	34
Additional paid-in capital	193,234	191,519
Retained earnings	(46,911)	(38,899)
Accumulated other comprehensive loss	(831)	(800)
Less: Cost of treasury stock	(91,678)	(91,678)

Total stockholders equity		53,849		60,176
Total liabilities and stockholders equity	$	81,972	$	95,160

PHOENIX TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months ended December 31,	
	2006	2005
Revenues:		
License fees	$ 7,924	$ 18,072
Services fees	1,800	517
Total revenues	9,724	18,589
Cost of revenues:		
License fees	265	1,321
Services fees	1,997	2,457
Amortization of purchased technology	292	838
Total cost of revenues	2,554	4,616
Gross Margin	7,170	13,973
Operating expenses:		
Research and development	4,546	5,832
Sales and marketing	4,140	9,624
General and administrative	4,228	5,494
Amortization of acquired intangible assets		18
Restructuring	2,211	
Total operating expenses	15,125	20,968
Income (loss) from operations	(7,955)	(6,995)
Interest and other income, net	573	555
Income (loss) before income taxes	(7,382)	(6,440)
Income tax expense	629	1,483
Net income (loss)	$ (8,011)	$ (7,923)
Earnings (loss) per share:		
Basic	$ (0.31)	$ (0.32)
Diluted	$ (0.31)	$ (0.32)
Shares used in Earnings (loss) per share calculation:		
Basic	25,474	25,014

Diluted	25,474	25,014

PHOENIX TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	$ (8,011)	$ (7,923)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation and amortization	884	1,539
Stock-based compensation	1,151	1,405
Loss from disposal of fixed assets	28	(2)
Deferred income tax		
Change in operating assets and liabilities:		
Accounts receivable	2,492	(3,564)
Prepaid royalties and maintenance	43	569
Other assets	90	850
Accounts payable	(1,614)	(156)
Accrued compensation and related liabilities	(801)	(28)
Deferred Revenue	(2,449)	5,637
Income taxes	72	731
Accrued Restructuring charges	(1,070)	(71)
Other accrued	(1,049)	(539)
Net cash provided by (used in) operating activities	(10,234)	(1,552)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	48,128	88,512
Purchases of marketable securities	(48,025)	(77,100)
Proceeds from the sale of fixed assets		
Purchases of property and equipment	(87)	(738)
Payments in connection with prior business acquisition		
Net cash provided by (used in) investing activities	16	10,674
Cash flows from financing activities:		
Proceeds from stock purchases under stock option and stock purchase plans	565	1,026
Repurchase of common stock		(993)
Net cash provided by financing activities	565	33
Effect of changes in exchange rates	36	(44)

Net increase (decrease) in cash and cash equivalents		(9,617)		9,111
Cash and cash equivalents at beginning of period		34,743		27,805
Cash and cash equivalents at end of period	$	25,126	$	36,916

See notes to unaudited condensed consolidated financial statements

* Reclassification of investment was done as of June 2006 (Q306) $9.1M to beginning cash (row 43)

PHOENIX TECHNOLOGIES LTD.
RECONCILIATION OF GAAP TO NON-GAAP NET INCOME AND NET INCOME PER SHARE
(in thousands, except per share data)
(unaudited)

	Three Months Ended December 31,	
	2006	2005
GAAP net income (loss)	$ (8,011)	$ (7,923)
(1) Equity-based compensation expense under SFAS 123R (see note below)	1,135	1,405
(2) Restructuring	2,211	
Non-GAAP net income (loss)	$ (4,665)	$ (6,518)
Non-GAAP Earnings (loss) per share:		
Basic	$ (0.18)	$ (0.26)
Diluted	$ (0.18)	$ (0.26)
Shares used in Earnings (loss) per share calculation:		
Basic	25,474	25,014
Diluted	25,474	25,014

These adjustments reconcile the Company s GAAP results of operations to the reported non-GAAP results of operations. The Company believes that presentation of net income and net income per share excluding non-cash equity-based compensation and restructuring provides meaningful supplemental information to investors, as well as management, that is indicative of the Company s core operating results and facilitates comparison of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and budgeting purposes. Equity-based compensation is excluded from non-GAAP financial results since it is a non-cash based charge. Restructuring costs are excluded from non-GAAP financial results since these are infrequent and non-recurring and therefore may not be considered directly related to our on-going business operations. These non-GAAP measures should not be viewed as a substitute for the Company s GAAP results, and may be different than non-GAAP measures used by other companies.

(1) This number represents non-cash equity-based compensation expense related to the Company s adoption of SFAS No. 123R beginning October 1, 2005. For the three months ending

December 31, 2006, non-cash equity-based compensation was $1.1 million, allocated as follows: $0.3 million to research and development, $0.3 million to sales and marketing and $0.5 million to general and administrative. Management believes that it is useful to investors to understand how the expenses associated with the adoption of SFAS 123R are reflected in net income.

(2) The Company has incurred restructuring expenses, included in its GAAP presentation of operating expense, primarily due to workforce related charges such as payments for severance and benefits and estimated costs of exiting and terminating facility lease commitments related to formal restructuring plans approved

by the Board of Directors in June 2006, in September 2006, and November 2006. For the three months ending December 31, 2006, severance and benefits totaled $1.9 million and cost related to exiting and terminating two facility lease totaled $0.4 million. In addition, the Company decreased the fiscal year 2003 restructuring reserve for the Irvine facility by $0.1 million due to a revised projection of the liability over the remaining term of the lease. The Company believes that these items do not reflect expected future operating expenses nor does the Company believe that they provide a meaningful evaluation of current versus past operational performance. Net income for the three months ended December 31, 2005 did not

include
restructuring
expenses.

PHOENIX TECHNOLOGIES LTD.
RECONCILIATION OF GAAP TO NON-GAAP NET INCOME AND NET INCOME PER SHARE
(in thousands, except per share data)
(unaudited)

	Three Months Ended December 31,		Three Months Ended September 30,	
	2006	2005	2006	2005
GAAP net income (loss)	$ (8,011)	$ (7,923)	$ (14,321)	$ (5,693)
(1) Equity-based compensation expense under SFAS 123R (see note below)	1,135	1,405	938	
(2) Restructuring	2,211		2,731	
Non-GAAP net income (loss)	$ (4,665)	$ (6,518)	$ (10,652)	$ (5,693)
Non-GAAP Earnings (loss) per share:				
Basic	$ (0.18)	$ (0.26)	$ (0.42)	$ (0.23)
Diluted	$ (0.18)	$ (0.26)	$ (0.42)	$ (0.23)
Shares used in Earnings (loss) per share calculation:				
Basic	25,474	25,014	25,323	24,893
Diluted	25,474	25,014	25,323	24,983

These adjustments reconcile the Company s GAAP results of operations to the reported non-GAAP results of operations. The Company believes that presentation of net income and net income per share excluding non-cash equity-based compensation and restructuring charges provides meaningful supplemental information to investors, as well as management, that is indicative of the Company s core operating results and facilitates comparison of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and budgeting purposes. These non-GAAP measures should not be viewed as a substitute for the Company s GAAP results, and may be different than non-GAAP measures used by other companies.

(1) This number represents non-cash equity-based compensation expense related to the Company s adoption of SFAS No. 123R beginning October 1, 2005. For the three months ending

December 31, 2006, non-cash equity-based compensation was $1.1 million, allocated as follows: $0.3 million to research and development, $0.3 million to sales and marketing and $0.5 million to general and administrative. For the three months ended September 30, 2006, non-cash equity-based compensation was $0.9 million, allocated as follows: $0.1 million to cost of goods sold, $0.2 million to research and development, $0.3 million to sales and marketing and $0.3 million to general and administrative. Management believes that it is useful to investors to understand how the expenses associated with the adoption of SFAS 123R are reflected in net income. Net income for the three months ending September 30, 2005 did not include equity-based compensation expense under SFAS 123.

(2) The Company has incurred restructuring expenses, included in its GAAP presentation of operating expense, primarily due to workforce related charges such as payments for severance and benefits and estimated costs of exiting and terminating facility lease commitments related to formal restructuring plans approved by the Board of Directors in June, September, and November 2006. For the three months ending December 31, 2006, severance and benefits totaled $1.9 million and cost related to exiting and terminating facility lease totaled $0.4 million. In addition, the Company decreased the

fiscal year 2003 restructuring reserve for the Irvine facility by $0.1 million due to a revised projection of the liability over the remaining term of the lease. For the three months ended September 30, 2006, severance and benefits totaled $2.1 million and cost related to exiting and terminating facility lease totaled $0.1 million. In addition, the Company increased the fiscal year 2003 restructuring reserve for the Irvine facility by $0.5 million due to projected increased operating expenses over the remaining term of the lease. The Company believes that these items do not reflect expected future operating expenses nor does the Company believe that they provide a meaningful evaluation of current versus past operational performance.

10-K COVER

Letter from the Chief Executive Officer

Dear Shareholders,

I am pleased to present our annual report for the financial year ended September 30, 2006. As most of you know, this was a difficult year for Phoenix Technologies with sharply declining revenues and substantial operating deficits. As a result of these difficulties, the Board of Directors took concrete steps which included the appointment of a new Chief Executive Officer, Chief Financial Officer and Chief Technology Officer. Under this new leadership, we have developed a new basic corporate strategy and significantly restructured operations. We have re-focused the business on core systems software, discontinued unprofitable product lines and eliminated the use of fully paid-up licenses, a pricing strategy that contributed significantly to our revenue difficulties.

We have taken dramatic steps to control our future expenses and we are aggressively developing a new architecture to extend our core business. We have radically enhanced our sales and pricing practices to ensure both a steady revenue stream and greater visibility of that future revenue.

We plan to leverage our engineering and technology strengths and our unique industry position to deepen our market reach. We believe we have significant opportunities to further penetrate major OEM customers with innovative solutions that will help them accelerate time to market, differentiate products and increase margins.

We are firmly committed to the view that Phoenix will play a major role in supporting the world s need for reliable and secure computing, and we believe this opportunity results from our entrenched position at the core of the world s computing devices in the layers between the chips and applications software. By combining our leading market share in core systems software, our partnerships with the world s biggest hardware and software vendors and our top-notch engineering team, we feel we have what it takes to fulfill our vital mission.

We will succeed by making innovative top-quality products that meet real market needs and by selling and delivering them at reasonable margins in order to return value to you, our shareholders. We believe that we have a solid strategy in place, and we are committed to restoring the company to sound financial health in fiscal year 2007.

Woodson Hobbs

President & Chief Executive Officer

Phoenix Technologies Ltd.

COVER LETTER

Phoenix Technologies Ltd.
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January 25, 2007

Phoenix Technologies Ltd. Annual Meeting- February 14, 2007

I am pleased to present to you the Phoenix Technologies Ltd. Annual Report & Form 10-K for fiscal year 2006, and the Notice and Proxy Statement for the Annual Meeting of Stockholders, to be held on February 14, 2007 at Phoenix s offices located at 915 Murphy Ranch Road, Milpitas, California.

To inform you of the meeting and the issues that will be presented to our stockholders, I am providing this material for informational purposes only; no proxy form is enclosed. If you have voting authority, you can expect to receive a separate package of material, including the proxy form, from those banks or brokers holding positions on your behalf, or from ADP Investor Communication Services.

If you do not receive your form of proxy from your custodial bank or other intermediary by Friday, February 2, 2007, please call Donna Corso at Morrow & Co., Inc., our proxy solicitor. The telephone number is 203-658-9400.

Sincerely,

/s/ Scott C. Taylor
Scott C. Taylor
Chief Administrative Officer, SVP and
General Counsel

Enclosure

TRANSCRIPT
PHOENIX TECHNOLOGIES
Moderator: Erica Mannion
January 25, 2007
7:30 a.m. CT

Operator: Good day, everyone, and thank you for joining us on Phoenix Technologies First Fiscal Quarter 2007 Financial Results conference call. I would like to remind you that this call is being recorded and simultaneously Webcast at www.phoenix.com.

At this time, I d like to turn the call over to Erica Mannion of Sapphire Investor Relations for opening remarks and introductions. Erica, please go ahead.

Erica Mannion: Thank you. Good morning. Thank you and thank you for joining us to discuss Phoenix Technologies financial and operating results.

With me today are Woody Hobbs, President and Chief Executive Officer, and Richard Arnold, Executive Vice President, Strategy and Corporate Development and Chief Financial Officer.

Before I turn the call over to Rich, I would like to mention on the call today you may hear forward-looking statements about events and circumstances that have not yet occurred. Actual outcome and results may differ materially from the expectations contained in these statements due to a number of risks and uncertainties. Please refer to the company s recent SEC filings at the SEC web site at www.sec.gov or the Safe Harbor located in this press release for a detailed discussions of the relevant risks and uncertainties. The company undertakes no responsibility to update this information in the conference call under any circumstance.

The press release distributed today that announced the company s results is available on our web site at www.phoenix.com in the investor relations section under financial press releases. The current report on form 8K furnished with respect to our press release is available on our web site in the investor relations section under SEC filings.

This conference call is also being recorded for replay and is being Webcast. The Webcast will be available on the company s web site until February 26th, 2007.

Now, it is my pleasure to hand the call over to Rich Arnold, Phoenix Technologies Executive Vice President, Strategy and Corporate Development and Chief Financial Officer. Rich?

Richard Arnold: Thank you, Erica. Good morning to everyone and thanks for joining us for the Phoenix Technologies first quarterly earnings call for fiscal year 2007. This is the first full quarter of operations under our new management team.

As indicated in our press release, net revenues during the three months ended December 31, 2006 were 9.7 million. This compares to net revenues of 8.3 million reported in the quarter ended September 30th of 2006, and 18.6 million for the quarter ended December 31st of 2005. The comparison periods both included revenue from fully paid up licenses, which were 1.3 million in the immediate prior quarter and 11.8 million in the year earlier period. In accordance for that previously announced decision in the first quarter of fiscal year 2007, we had no revenue from paid up licenses.

On a GAAP basis, the net loss in the first quarter of fiscal 2007 was 8.0 million, or 31 cents per share, compared with a net loss of 14.3 million, or 57 cents a share, for the fourth quarter of fiscal 06, and a net loss of 7.9 million, or 32 cents a share, for the first quarter of that year.

On a non-GAAP basis, in the first fiscal quarter of 2007 Phoenix reported a net loss of 4.7 million, or 18 cents a share, a $6 million dollar, or 24 cents a share, improvement when compared to the non-GAAP net loss of 10.7 million, 42 cents a share, for the fourth quarter of fiscal year 06.

In the first quarter of the previous year, the non-GAAP net loss was 6.5 million, or 26 cents a share, so the current quarter result is an improvement of 1.8 million, or eight cents a share, despite revenue having been reduced by 48 percent.

Total non-GAAP adjustments in the first quarter of fiscal year 2007 were 3.3 million and include non-cash stock compensation expense as required according to Statement of Financial Accounting Standards 123R, as well as a restructuring charge of 2.2 million covering severance and related costs and additional expense associated with a facility closure in Europe. These non- GAAP adjustments are more fully described in the reconciliation between net loss on a GAAP basis and non-GAAP net loss provided in the financial statements which accompanied the press release.

Regarding net revenue performance in Q1, as I said, this quarter marks the first full quarter of operations since Woody and I arrived along with Dr. Gaurav Banga, our new CTO. Our performance this quarter, therefore, reflects the beginning stages of execution of our new product and pricing strategies, and also the effects of key operating decisions that were taken in late fiscal year 2006.

As we ve announced previously, we ve ceased marketing and sales of enterprise application products and have discontinued the use of fully paid up licenses. Net license revenue for the first quarter of fiscal year 2007, including zero paid up license revenue, were 7.9 million. This represented a 13 percent improvement over license revenue for the previous quarter ended September 2006 when net license revenue was 7 million, though it was a significant reduction from the license revenue in the year earlier period of 18.1 million. Our cessation of the use of fully paid up licenses has helped us to stabilize the prices we re able to achieve for our products and services. We ve now increased our use of volume pricing agreements with our larger customers, which we believe helps us to achieve a higher level of predictability of future license and service revenues. We re, therefore, returning today to the practice of providing guidance as to our revenue expectations, which Woody will discuss later in the call.

During the first quarter of fiscal 2007, we entered into several of these large volume purchase agreements, or VPAs. These agreements are generally non-cancelable set prices with the specific customer for a year in advance and have payment terms spread over a nine to 12 month period. Under our accounting policies, only those payments that are due within 90 days are considered fixed and determinable, and therefore invoiced and recorded on our books as either current or deferred revenue. VPA fees that are payable beyond 90 days are not considered fixed and determinable and are therefore neither invoiced nor immediately recorded on the company s financial statements.

As a result of sales achieved during the first quarter of fiscal 2007, the amount of such volume purchase agreements which has not been recorded by the company was approximately 16.7 million. The company expects to invoice and recognize revenue on these agreements in the full amount of that 16.7 million over the next nine months.