

INTELLISYNC CORP  
Form 10-K  
October 28, 2005

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-K

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

For the fiscal year ended July 31, 2005

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 0-21709

## INTELLISYNC CORPORATION

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**2550 North First Street, Suite 500**  
**San Jose, California**  
(Address of principal executive offices)

**77-0349154**  
(I.R.S. Employer  
Identification No.)

**95131**  
(ZIP Code)

**(408) 321-7650**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$.001 par value**  
Act:

**Preferred Stock Purchase Rights**  
(Title of class)

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  X

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  X No  O

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$129,158,201 at January 31, 2005 the registrant's most recently completed second fiscal quarter.

The number of the registrant's \$0.001 par value Common Stock outstanding as of October 10, 2005, was 67,255,129 shares of Common Stock.

### **DOCUMENTS INCORPORATED BY REFERENCE:**

**Part III**

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Certain sections of the proxy statement for registrant's 2005 Annual Meeting of Stockholders tentatively scheduled for December 2, 2005 to be filed with the Commission pursuant to Regulation 14A no later than 120 days after the fiscal year ended July 31, 2005.

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**PART I**

**ITEM 1. BUSINESS**

*This Annual Report on Form 10-K contains certain forward-looking statements that involve risks and uncertainties. Words such as anticipates, believes, expects, future, plan, intends, should, and similar expressions are used to identify forward-looking statements. These statements are only projections based on current assumptions made by management. The actual results that we achieve may differ materially from those indicated in any forward-looking statements due to the risks and uncertainties set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and elsewhere in this Form 10-K. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report. Readers are urged to review and consider carefully the various disclosures made by us in this report and our reports filed with the Securities and Exchange Commission that inform interested parties about the risks and factors that may affect our business.*

**OVERVIEW**

Intellisync Corporation develops, markets and supports desktop, enterprise and mobile carrier-class software that enables consumers, business executives and information technology professionals to extend the capabilities of enterprise groupware and vertical applications, data-enabled mobile devices and other personal communication platforms. The primary software applications we developed and marketed include push-email, data synchronization and systems management software. Our software also enables organizations to search, find, match and synchronize identity data within their computer systems and network databases.

Intellisync was incorporated in California on August 27, 1993 and was subsequently reincorporated in Delaware on November 27, 1996. Our principal executive offices are located at 2550 North First Street, Suite 500, San Jose, California 95131, and our Web address is [www.intellisync.com](http://www.intellisync.com). The information posted on our website is not incorporated into this Annual Report on Form 10-K.

We have organized our operations into a single operating segment encompassing the development, marketing and support of software and services that provide synchronization, wireless messaging, mobile application development, application/device management, real-time remote information access, secure VPN and identity searching/matching/screening capabilities. For further discussion of financial information related to our operating segment, as well as geographic areas, refer to note 15 to consolidated financial statements set forth in Part IV of this Annual Report on Form 10-K.

We license our software products directly to corporations, mobile carriers, original equipment manufacturers, or OEMs, and business development organizations worldwide. In addition, we sell our retail products through several distribution channels both in the United States and internationally, including major distributors, resellers, computer dealers, retailers and mail-order companies. Internationally, we are represented by distributors, resellers and retailers in North America, Europe, the Asia-Pacific region, South America and Africa. We also allow individuals and organizations to utilize our software directly by hosting our products and charging a subscription fee.

**AVAILABLE INFORMATION**

All reports we filed electronically with the United States Securities and Exchange Commission, or the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, and other information and amendments to those reports filed electronically (if applicable), are accessible at no cost on our Web site at [www.intellisync.com](http://www.intellisync.com). They are also available by contacting our Investor Relations at [invrel@intellisync.com](mailto:invrel@intellisync.com) or 408-321-7650. These filings are also accessible on the SEC's Web site at [www.sec.gov](http://www.sec.gov). The public may read and copy any materials we filed

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with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information for the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We have adopted an ethics policy for all of our employees, as well as a code of ethics for our principal officers and financial professionals. Copies of the ethics policy and code of ethics are also available on our Web site.

Our Web site and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K or our other filings with the SEC.

### **INDUSTRY BACKGROUND**

Significant advancements in miniaturization, visual displays, long-life batteries and portable communications in the 1990's have led to the introduction of many innovative mobile computing devices today. In addition, with the increasing mobility of work-forces, as well as additional competitive pressures, business professionals and enterprises are continuously seeking ways to improve productivity and, as a result, are increasingly using the growing number of these mobile computing devices. These highly portable devices allow users to work and communicate while they are away from the office and have fueled the significant growth of mobile computing. From laptops to handheld devices and now to smart phones, a variety of computing devices have found their way into most organizations.

Laptop computers and mobile handheld devices such as PDAs and smartphones are carried by a high percentage of corporate employees. Laptops provide enough power to support almost any application a user wants to run, with the added benefit of being the standard platform for almost all application development. Then, in the past few years, we have seen a significant increase in the deployment of handheld devices within corporations. These devices are used for a variety of reasons including email and personal information management, (PIM) access and mobile applications. The form factor of these devices makes them ideal for certain tasks where a laptop may be ineffective. Today's popular handheld devices are mostly based on Palm, Symbian or Windows Mobile operating systems.

The use of mobile devices has increased tremendously as these devices have achieved wide acceptance and become more advanced and increasingly capable of running complex applications. Recent developments in mobile technology and wireless infrastructure are enabling mobile devices to exchange an immense amount of both personal and corporate information, and they are therefore now widely used for an extensive range of both data and voice applications.

Mobile device manufacturers, corporate enterprises and application developers face constant pressure to provide increased mobile functionality. Many of these manufacturers, enterprises and developers seek to incorporate mobile data communication, exchange and synchronization capabilities to enhance existing services or expand into new markets. Enabling mobile devices to intelligently communicate, exchange and synchronize information is a complex and challenging task and has historically been cumbersome and expensive because it may have required combining products from multiple companies to arrive at a mobile solution. Simply facilitating synchronization or data messaging requires data-level, or content-aware, synchronization technology to maintain complete, up-to-date and accurate information. In order to manage information effectively, mobile device users need convenient connectivity and synchronization solutions for the specific combination of networks, devices and applications that they use. These software solutions must allow these users to synchronize information maintained separately on multiple devices (for example, contact databases maintained by a mobile professional using a handheld computer in the field and by a support colleague using a desktop personal computer, or PC, in the office). A software solution that links such different devices must address multiple hardware architectures, operating systems, communications architectures and application-specific data formats and structures.

## OUR TECHNOLOGY SOLUTIONS

We provide enterprises, network operators, mobile device manufacturers and software providers with a complete mobility platform. Our products are branded and marketed under several names for specific markets or needs; these include our award-winning Intellisync family, the Intellisync Mobile Suite, the Intellisync Mobile Suite for Carrier, the Intellisync SyncML platform, Identity Search server and Intellisync IM (formerly VeriChat). Encompassing all aspects of mobility, we provide the critical technology solutions needed for businesses to realize the full potential of smart devices and advanced wireless networks. Our mobility offerings include:

- **Wireless Messaging:** Email/PIM synchronization and instant messaging solutions connect mobile devices to consumer and corporate industry standard email servers like Microsoft Exchange, Novell Groupwise and Lotus Domino, simplifying the process for business professionals to access their email, messages, calendar, contacts, and tasks.
- **PIM Synchronization:** Desktop-PDA (personal digital assistant) synchronization offerings include Intellisync® Handheld Edition for Enterprise and Intellisync Handheld Edition, supporting the synchronization needs of a mobile workforce. For independent software vendors, or ISVs, and internet service providers, or ISPs, we offer the PIM Platform.
- **File Distribution:** File synchronization capabilities automate the process of distributing information throughout an organization.
- **Device Management:** Device management provides a robust platform for mobile carriers to configure, update, and provision leading mobile devices for their customers and offers a mechanism for remotely maintaining and securing mobile devices.
- **Application Mobilization:** We allow organizations to mobilize a wide range of enterprise applications and data to a wide variety of devices and platforms.
- **Services:** We provide professional and maintenance services to support the evaluation, purchase, installation and use of our products.



**PRODUCTS**

We provide individuals and organizations with a complete mobile platform featuring a comprehensive suite of software products and services that synchronizes and distributes critical information to employees, customers or partners. Our solutions are designed to support continued innovation the growing number of devices, access points and data sources utilized by the typical mobile worker in today's enterprise allowing businesses of all sizes to maximize productivity while minimizing complexity and cost.

Product Name	Description	Introduction Date
<i>Intellisync Mobile Suite for the Enterprise</i>	Designed to extend an organization's existing technology infrastructure to mobile and remote staff, delivering access to enterprise applications, file content, email and PIM data, intranet sites, and Web content and provide tools for remotely managing mobile devices.	
• Intellisync Wireless Email	Provides <i>Wireless Push Email and PIM Synchronization</i> , enabling users to receive email, calendar, contacts, and other updates from all the leading groupware/email servers, including Microsoft Exchange and Lotus Domino, on nearly any mobile device, including Palm OS, Pocket PC, and Windows Mobile-based devices. XML (Extensible Markup Language) Platform opens Wireless Email to easy access to CRM (customer relationship management), SFA (Sales Force Automation), and collaboration software.	December 2003
• Intellisync Data Sync	Provides <i>Mobilized Enterprise Applications</i> , extending any of corporate data or applications to mobile workers, on handheld devices as well as laptop and tablet PCs. Data Sync is used by enterprises to deliver large-scale, high-ROI (return on investment) mobile applications to several users.	December 2003
• Intellisync File Sync	Provides an <i>Efficient File and Web-content Distribution</i> as it automates distribution of any file or intranet content on a network to mobile devices, keeping them up-to-date and relevant.	December 2003
• Intellisync Mobile Systems Management	Provides a <i>Comprehensive Security and Device Management</i> , enabling users to manage every aspect of a mobile solution through an easy-to-use administrative console. With features that drive administrative efficiency and security, such as over-the-air deployment and automatic device backups, Systems Management helps minimize the IT (information technology) resources required for a mobile solution.	December 2003
<b>Wireless Email Express</b>	An easy-to-install, subscription version of Intellisync Wireless Email, ideal for the smaller enterprise deployment, or small to medium businesses.	August 2005

***Intellisync Mobile Suite for the Carrier***

A full-featured mobile data middleware platform that provides operators with a single platform they can use to deliver wireless email, device management, and data access solutions to their customers. The Intellisync Mobile Suite for Carrier delivers the following modules:

- Intellisync Wireless Email  
See product description under Intellisync Mobile Suite. December 2003
- Intellisync Consumer Email  
Designed to provide simple, secure, and affordable email access on BREW-enabled mobile devices that operators choose to deploy. The solution supports POP3 email from a variety of sources including AOL, Hotmail, Yahoo, and MSN. The solution can also be configured to provide access to a user's corporate email via an IMAP4 connection into the user's Microsoft Exchange or Lotus Domino mail server. March 2005
- Intellisync Device Management  
Provides mobile operators with device management capabilities that can be offered to enterprises as either a hosted solution or a behind-the-firewall solution. This offering includes capabilities for Device Security, Asset Management, Software Management, Device Troubleshooting, Network Optimization, and Device Configuration. March 2003
- Intellisync File Sync  
See product description under Intellisync Mobile Suite. December 2003
- Intellisync Data Sync  
See product description under Intellisync Mobile Suite. December 2003
- Intellisync SyncML Platform***  
Provides over-the-air (OTA) push of PIM data, OTA synchronization services for custom data types, and hosted Web PIM services. It works on a broad range of mobile devices, making it the perfect fit for operators needing to deploy a variety of consumer devices. Intellisync SyncML Platform offers mobile consumers on-demand pull and push access to their PIM data, email and files, and makes vital data portable and accessible wherever consumers may go. It allows on-demand synchronization and scheduled push for any data type, including email with attachments and PIM data, such as contacts, calendar events, memos, and tasks. It also provides Web PIM services, allowing consumers to remotely access their data online, provision mobile devices, backup and restore PIM data, retrieve files and bookmarks and more. March 2003

***Intellisync Carrier ASP Service***

Intellisync offers mobile carriers a wide range of deployment options for delivering wireless data solutions. Carriers can, in turn, offer these same options to their customers, giving them the ultimate in flexibility. Carrier can choose to:

- **Host the Intellisync Mobile Suite for Carrier inside their network** this gives the operator total control over the environment and enables them to deliver a hosted service to their customers, easing the customers installation and support burden.
- **Have Intellisync host the solution** this will enable the mobile operators to deploy wireless data solutions quickly with minimal delay. Intellisync integrates this hosted solution with the carriers authentication and billing systems to insure that user accounts are valid and properly billed.
- **Have the customer host the solution behind the firewall** this option enables companies that want to control their corporate data to do so by having the infrastructure behind their firewall.

May 2004

***Intellisync OEM Licensing***

- Wireless to Server
- Server to Server
- Client to Server

Provides all-in-one corporate-licensing solution to enable inter-operability for all of the PIM software, handheld devices, and desktop operating systems that Intellisync Handheld Edition supports. PIM Platform-Wireless to Server (W2S) extends application data via wireless email and PIM push to the leading mobile devices. It offers rapid integration to the widest possible customer base. With Intellisync's server development solution, Intellisync PIM Platform-Server to Server (S2S), developers can integrate their application's server-based data with leading groupware servers such as Microsoft Exchange and Lotus Domino. To synchronize data to client PIM applications and cradled devices, Intellisync PIM Platform-Client to Server (C2S) offers cost-effective integrations through connectors.

February 1998

August 2003

February 1998

***Identity Search Server***

Designed to provide solutions that significantly enhance an organization's ability to search, find, match, and group identity data within their computer systems and network databases. Identity Systems software is an out of the box solution for searching and matching names, addresses, and identity data for Oracle, DB2/UDB, and SQL Server.

March 2004

***Intellisync Handheld Edition***

<ul style="list-style-type: none"> <li>• Intellisync Handheld Edition for Enterprise</li> <li>• Intellisync Handheld Edition</li> <li>• Intellisync Lite Upgrades</li> </ul>	<p>Designed to provide robust, secure client synchronization solutions capable of extending information and mission-critical data beyond the confines of the desktop. It provides organizations of all sizes and needs with cost-effective, easy-to-administer solutions for sharing email, PIM, file, and application data with a wide range of mobile devices and platforms.</p> <p>Designed specifically for the high-demand corporate environment, Intellisync Handheld Edition for Enterprise software makes it easy and affordable to support the desktop synchronization needs of a mobile workforce, no matter which handheld devices or software they use.</p> <p>Designed to keep a user constantly current with direct, two-way synchronization between his/her PC and Palm OS, Pocket PC or Windows Mobile-based Smartphone device.</p> <p>Upgrade to the full version of Intellisync special offers for Sony, NEC, Group Sense, Garmin, Panasonic, and PI Tech customers.</p> <p>An always-on, unified Instant Messaging (IM) application for PalmOS devices. On a smartphone, such as a Treo 600, Intellisync IM works with the user's persistent (GPRS/CDMA 1xRTT) or CSD wireless data connection, providing an always-on presence on the Yahoo!, ICQ, MSN &amp; AOL chat networks.</p>	<p>June 2001</p> <p>August 1996</p> <p>June 2001</p> <p>June 2005</p>
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**OUR STRATEGY**

Our strategy is to be a leading developer and marketer of innovative wireless software solutions for the global mobile communications market by leveraging our engineering, technology and domain expertise and executing on a plan to broaden our market reach through distribution agreements and partnerships with leading enterprises, mobile carriers, device manufacturers, and software providers. We believe that our strategy will allow us to deepen relationships with our existing customers, attract new customers and further diversify our revenue streams.

Our strategy includes the following key elements:

***Extend Technology and Product Leadership.*** We believe that we currently have and are enhancing one of the broadest and most comprehensive mobile and wireless infrastructure enterprise solutions. We intend to continue to invest in research and development and remain involved with new and developing industry standards. We also intend to increase the performance, functionality and ease of use of our solutions by supporting new mobile devices and developing new ways for our products to be marketed and supported by service providers and our strategic partners.

***Maintain and Strengthen Strategic Relationships.*** We depend on and have strategic relationships with service providers, systems integrators, mobile carriers, independent software resellers, and other types of technology providers to build applications based on our infrastructure platform and technologies. We plan to continue building these relationships as well as forming new partnerships to increase visibility and distribution of our solutions.

***Increase Brand Awareness and Marketing Efforts.*** We intend to increase customer awareness of our products, technologies and services. We plan to enhance awareness of the Intellisync brand by increasing

our marketing activity and furthering our image as a high-quality provider with a comprehensive offering of technology solutions.

**Expand Our Worldwide Presence.** We believe that international markets present a substantial growth opportunity for us as the worldwide market for mobile and wireless products continues to grow. We are currently selling our products in Canada, Europe, the Asia-Pacific region, South America and Africa, and plan to expand our sales, marketing and support functions in those areas by expanding our direct sales force, improving our customer service capabilities and developing relationships with international resellers, distributors, carriers and OEMs.

**Further Enhance Customer Satisfaction.** We are committed to providing world-class technical support, training, consulting and professional services and view building long-term customer relationships as a critical component of growing our business. We believe servicing our existing customer base will allow us to more easily up-sell and cross-sell additional products, features and customer service offerings.

**Build Value Through Strategic Acquisitions.** We have acquired and integrated core technologies from Spontaneous Technology, Inc., Synchrologic, Inc., Identity Systems (formerly Search Software America, or SSA), Tourmaline Networks, Inc. and PDAapps. We are willing to acquire, when appropriate, additional businesses and technologies that will expand and add functionality to our product offerings, augment our distribution channels, expand our market opportunities or broaden our customer base.

**Continue Revenue Growth and Improve Operating Efficiencies.** We maintain a disciplined commitment to increasing our quarterly revenue. Together with our other strategies listed above, we plan to improve revenue by continuing to develop new and current products, services and technologies. We intend to capitalize on the continued growth in demand for wireless services and the related infrastructure required, including hosting, application and other related services, to support that growth. We also actively seek to improve our operational efficiency and reduce our costs throughout our operations, removing administrative complexities, eliminating redundancies, and integrating acquired businesses.

## SALES AND MARKETING

We market and sell our products through a direct sales force and several third party distribution channels in the United States and internationally, including wireless carriers, retail, the Internet, value-added resellers, distributors, software providers and system integrators. We have also historically developed partnerships with original equipment manufacturers, or OEMs, service providers, mobile carriers and other enterprises around the world to market or to create marketing opportunities for our applications. We depend on these partners to help us deliver world class mobility solutions and we believe that by working together we combine the strengths of our broad mobility platform with the expertise, tools and networks of our technology and distribution partners to create substantial value, not only for our customers, but also for both our partners and our company. Intellisync Corporation's Partner Program is designed to provide organizations a variety of tools, information, training and resources needed to successfully sell our products and solutions. We work with these organizations to train certain of their sales forces and collaborate with them in joint marketing programs.

Through ongoing communications with OEMs, enterprises and carrier sales and marketing organizations, we match our application portfolio with the strategic needs of the carrier and the preferences of their subscribers. We have sales and marketing offices located in San Jose, California; Greenwich, Connecticut; Alpharetta, Georgia; Sydney, Australia; Cologne, Germany; Reading, United Kingdom; and Tokyo, Japan and a number of sales representatives working from their homes in the United States, Italy and Germany, to cover local territories.

Our active participation in multi-channel sales, marketing and service of the enterprise, carrier, retail, and OEM mobile middleware markets provides a significant business opportunity for our partners. Our customers continue to expand and optimize their deployments of Intellisync software products. As a result,

Intellisync's customer base presents a ready market for complementary products, services, and solutions from our partners.

In addition, Intellisync is the mobile platform of choice for some of the largest mobile carriers and operators in the world. From wireless messaging to device management to mobile applications, we are helping carriers in their efforts to reduce churn, increase average revenue per user (ARPU), penetrate enterprise accounts and increase mobile data profits.

We strive to be both a technology and marketing partner with our OEM and strategic customers. Our sales and marketing organization sells our products directly to our OEM partners, distributors and end users. We work closely with OEM partners on their new hardware products by providing them with technical input, thereby helping to ensure that our software products will work successfully with the OEM's hardware products. We also train and educate the OEM's sales and marketing organizations on our products, allowing them to act as our virtual sales force to their channels and direct customers. In addition, we work closely with our hardware and software strategic partners to develop effective marketing programs designed to increase sales. Refer to the discussion below under the caption *Risk Factors* *If we fail to maintain our existing relationships or enter into new relationships with OEM and business development organizations, or if products offered by our OEM partners fail to achieve or maintain market acceptance, our brand awareness, the sales of our products and use of our services would suffer.*

We manage a content-rich web site to facilitate the sale and support of our products and engage in electronic marketing through email, newsletter and white paper postings to drive awareness and sales leads. Over the years, we have built a substantial database of users who have opted to receive information about enterprise mobile computing. In addition, we participate in a number of industry conferences and trade shows both independently and with strategic partners.

In the United States, our sales organization works directly with major distributors, resellers, computer dealers, retailers, mail-order companies and Web stores to distribute our retail packaged products. Internationally, we market and sell through selected distributors and resellers that focus on specific geographic and market segment areas. These international partners operate as an extension of our marketing and sales organizations, developing the appropriate sales channels in their regions. They also work with local resellers as well as local offices of our OEM customers to develop specific marketing and channel promotions for their regions. As of July 31, 2005, we were represented by over 150 distributors, resellers and retailers in North America, Europe, Asia Pacific, South America and Africa, and are continuing to expand our international reach as appropriate distributors or resellers are found. Also, refer to the discussion below under the caption *Risk Factors* *We are dependent on our international operations for a significant portion of our revenue.*

Consistent with industry practice, we provide our distributors with stock balancing and price protection rights. These rights permit our distributors to return slow-moving products to us for credit and to receive price adjustments for inventories of our products held by distributors if we lower the price of those products. We recognize revenues on products shipped to distributors at the time the merchandise is sold by the distributor; as a result, the immediate effect of returns and adjustments on our quarterly operating results has been minimal to date. Also, to date, we have not experienced any significant returns or price protection adjustments.

No customers, distributor or otherwise, accounted for more than 10% of our total revenue during fiscal 2005 and 2004. During fiscal 2003, Ingram Micro US accounted for 10% of our total revenue.

In order to develop further our brand name recognition, we plan to continue to expand our joint marketing programs, marketing channel promotions and bundling arrangements with our strategic partners. We also plan to continue to leverage our relationships with industry leaders and to expand and diversify our own sales and marketing initiatives to increase our sales to mobile carriers and enterprises. Hence, we anticipate that sales and marketing expenses will increase in fiscal 2006.

## **CUSTOMER SUPPORT**

Our service and support organization provides secondary technical support to OEMs, primary technical support to enterprises, retailers and end users, and education and training services to enterprises, OEMs and retailers. We also utilize an outsourced vendor to provide first line technical support related to the majority of our retail products. Our current OEMs typically have software maintenance agreements with us. These agreements provide for technical support and include maintenance of our products in accordance with specifications contained in our guidelines for such products, as well as access to technical support personnel by telephone, fax and e-mail. Customers under license agreements are typically entitled to certain product updates and modifications, primarily bug fixes. Our OEMs and some of our retail channel partners provide telephone and initial support to end-users.

## **SEASONALITY**

Typically, our products and services experience seasonal variations in demand, with weaker revenue in July and August because of reduced corporate buying patterns during the vacation season. This seasonality is especially notable in Europe. Overall, we experience fluctuations in the demand for our products and services consistent with the fluctuations experienced in the industry as a whole.

## **COMPETITION**

The market for our software remains intensely competitive and is characterized by rapid technological changes and evolving standards. Although we believe we compete favorably in this market, we also believe that this market is likely to become more competitive as the demand for wireless and mobile data solutions continues to increase. We believe that our products and services support a broad range of mobile devices and services, allowing us to compete favorably with other companies with no similar platform or whose mobile solutions are highly fragmented. We also believe that users demanding synchronization functionality with a wide variety of mobile computing devices and software applications will view our products favorably compared to those of larger companies whose products may not be able to support such a degree of interoperability. In addition, our strategic relationships with hardware and software vendors enable us to provide interoperability among a broader range of applications than many of our competitors. To maintain or increase our competitive advantage, we will need to continually enhance and expand our current product, service and technology offerings and our professional service capabilities.

The principal competitive factors affecting the market for our software are:

- the compatibility, functionality and reliability of the products and services provided;
- brand recognition and reputation for providing trusted products and services;
- the level of security of the products and services provided;
- the price for which products and services are offered;
- convenience and breadth of products and services offered;
- the quality and market acceptance of new enhancements to our current services and features; and
- OEM relationships and other strategic arrangements with third parties.

We are subject to current and potential competition with respect to our Intellisync Handheld Edition, Intellisync Handheld Edition for Enterprise, Intellisync Mobile Suite, Intellisync SyncML Server and Identity Systems products.

We also face indirect competition from existing and potential customers that may provide internally developed solutions for each of our technology licensing components. We currently face limited direct

competition from major applications and operating systems software vendors who may in the future choose to incorporate data synchronization functionality into their operating systems software, thereby potentially reducing the need for OEMs to include our products in their devices. For example, Microsoft's inclusion of certain features permitting data synchronization between computers utilizing the Windows Mobile and Exchange operating system may have the effect of reducing revenue from our software if users of these operating systems perceive that their messaging and synchronization needs are adequately met by Microsoft. Furthermore, current or potential competitors have established or may establish financial and strategic relationships among themselves or with existing or potential customers or other third parties to increase the ability of their products to address the needs of customers. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share, which would harm our business.

Also, refer to the discussion below under the caption *Risk Factors We face intense competition in the market for mobile computing synchronization products and services, which could reduce our market share and revenue.*

## **RESEARCH AND DEVELOPMENT**

The markets for our products are characterized by rapidly changing technologies, evolving industry standards, frequent product introductions and short product life cycles. As a result, our research and development activities are critical to our continued growth. Employees in our engineering group are engaged in both product research and development as well as localization efforts for existing products. Product maintenance and customer support responsibilities are shared by engineering group employees on an as-needed basis. In developing new products or enhancements, we work closely with current and prospective customers, as well as with industry experts, to ensure that our products address current problems and emerging requirements. We believe that such collaboration is critical to develop and improve our products and services. Our engineering group also works closely with our sales and marketing and professional services groups to develop products that meet real customer needs.

We also complement our engineering capacity with a number of software development engineers located in our research and development facilities in Sofia, Bulgaria and Cluj-Napoca, Romania. These European facilities were established to take advantage of the considerable local knowledge and expertise in the areas of information technology and software programming, and to offer extensive development, support and management for our current projects and potential software solutions. In addition, the companies we acquired from our recent acquisitions have given us expanded research and development capabilities with employees that have extensive knowledge and experience in the synchronization and mobile infrastructure software solutions.

As part of our strategic plan, our engineering group, strengthened by our recent acquisitions, is currently aiming their efforts at expanding support for synchronization of wireless messaging, data sync, device management and application mobilization for wireless handhelds, smartphones, laptops and tablet. We are extending our core synchronization technology to increase scalability and extensibility, and at supporting next-generation wireless technology and device platforms. We also continue efforts on enhancing our data synchronization platform and other technology solutions to provide further value to our wireless carrier and enterprise customers. We will continue to develop our platforms to mobilize and synchronize vertical enterprise applications, such as customer relationship management, or CRM, software with corporate groupware either on the device, desktop or via server-to-server connectivity.

In fiscal 2005, 2004 and 2003, research and development expenses were \$14.6 million, \$11.5 million and \$7.4 million, respectively. Research and development is important to our future success, and we expect that research and development expenses will increase in future periods. Although we plan our budget for research and development based on planned product introductions and enhancements, actual expenditures



may significantly differ from budgeted expenditures. In addition, a number of risks are inherent in the product development process. Refer to the discussion below under the caption *Risk Factors Our market changes rapidly due to evolution in technology and industry standards. If we do not adapt to meet the sophisticated needs of our customers, our business and prospects will suffer.*

### **PROFESSIONAL SERVICES GROUP**

We believe that delivering quality professional services provides us with a significant opportunity to differentiate ourselves in the marketplace. The members of our professional services group are experts in the fields of synchronization and mobility, with a proven track record of delivering carrier-grade solutions for mobile devices, desktop applications and databases. Our professional services group specializes in producing software that delivers a measurable competitive advantage for customers deploying and integrating our solutions with a wide variety of applications and systems.

By transforming emerging technologies into robust, reliable, revenue-producing products and services, our professional services group has the expertise to develop enterprise solutions that combine handheld, mobile, wireless, desktop, internet, synchronization, back-office applications and database technologies. Our professional services team works across multiple phases of development projects: business analysis and strategic technology consulting, project management, design, engineering, quality assurance, software testing, localization and technical writing. The group's clients have included America Online, Inc., Merck & Co., Inc., Oracle/PeopleSoft, Inc., Pfizer, Inc. and Verizon Wireless.

### **ACQUISITIONS**

The markets in which we compete require a wide variety of technologies, products, and capabilities. Our strategy of acquiring assets or businesses with complementary products, technologies and engineering resources has resulted in the completion of a number of acquisitions, including the transfer of workforce from SoftVision SRL and the acquisition of PDAapps, Tourmaline, Identity Systems, Synchrologic and Spontaneous Technology. We may make additional acquisitions as part of our growth strategy.

The acquisition of high-technology companies is inherently risky. These risks are more fully discussed in the risk factors below under the captions *Our recent and any potential acquisitions could require significant management attention and prove difficult to integrate with our business, which could distract our management, disrupt our business, dilute stockholder value and adversely affect our operating results.* Refer to the discussions under the caption *Acquisitions* set forth in Item 7, Part II of this Annual Report on Form 10-K for more information on the acquisitions.

### **PROPRIETARY TECHNOLOGY AND INTELLECTUAL PROPERTY**

Our success depends significantly upon our proprietary technology. We rely on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and other measures to protect our proprietary rights. We also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and name recognition are essential to establishing and maintaining a technology leadership position. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. We currently have 59 issued United States patents and have 68 patent applications pending in areas covering push email and data synchronization for both wireless and wired communications.

We have designed, developed and sold synchronization products since the early 1990s. It is in this area that we were awarded our first patent. From this activity, we believe we have learned a great deal about what it takes to build a robust synchronization product to deal with the many subtleties presented by the

wide range of capabilities among the various PDAs, Mobile Devices, PIMs, enterprise applications and data bases that must be mobilized.

We believe that the defense of our intellectual property is an important portion of our overall IP strategy. However, we cannot be certain that our patents will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to us or that any of our pending or future patent applications, whether or not being currently challenged by applicable governmental patent examiners, will be issued with the scope of the claims sought by us, if at all. Furthermore, we cannot be certain that others will not develop technologies that are similar or superior to our technology or design around the patents owned by us.

We also subject to claims by third parties alleging that our products infringe proprietary rights held by them. We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows, the functionality of products in different industry segments overlaps, and as patent protection for software becomes increasingly popular.

Also, refer to the discussion below under the captions *Risk Factors We may be unable to adequately protect our proprietary rights;* *Risk Factors We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future* and *Risk Factors We have been, are and may in the future be involved in litigation that could result in significant costs to us.*

## **EMPLOYEES**

As of July 31, 2005, we had a total of 456 full-time employees, including 279 in engineering, professional services and customer support, 122 in sales and marketing and 55 in operations, finance and administration. 201 of our employees are located outside the United States, including 98 in Romania, 33 in Bulgaria, 29 in other parts of Europe, 31 in Asia-Pacific and 10 in Japan. None of our employees is represented by a labor union. We have experienced no work stoppages.

Many of our current key personnel have substantial experience in our industry and would be difficult to replace. Competition for qualified personnel in our industry is intense. We believe that our future success will depend in part on our continued ability to hire, train and retain qualified personnel. Also, refer to the discussion below under the caption *Risk Factors We depend on key employees in a competitive market for skilled personnel.*

## **RISK FACTORS**

*The following risks and uncertainties may have a material and adverse effect on our business, financial condition or results of operations. You should carefully consider these risks and uncertainties, together with all of the other information included or incorporated by reference in this Annual Report on Form 10-K. If any of the material risks or uncertainties we face were to occur, the trading price of our securities could decline.*

***We have historically incurred losses and we expect these losses to continue in the future. We may not be able to sustain consistent future revenue growth on a quarterly or annual basis, or achieve or maintain profitability.***

We have not been profitable since fiscal 1998. Although we have reported record revenue for fiscal 2005, we cannot be certain that our revenue will continue to grow, that we will produce sufficient revenue to achieve profitability or that our revenue will not decline in the future. We have experienced losses of \$13.4 million, \$9.5 million and \$7.7 million for fiscal 2005, 2004 and 2003, respectively. At July 31, 2005, we had an accumulated deficit of \$144.5 million. To become profitable and sustain profitability, we will need to generate additional revenues to offset our expenses. We may not achieve or sustain revenue growth and our losses may continue or increase in the future. The synchronization market is evolving, and as a result we cannot accurately predict either the future growth rate, if any, or the ultimate size of the market for our

products and services. Because our operating expenses are relatively fixed in the short term, any shortfalls in revenues would materially affect our results of operations.

*Our quarterly revenue and operating results are subject to significant fluctuations, and our stock price may decline if we do not meet the expectations of investors and analysts.*

Our quarterly revenue and operating results are difficult to predict and have and may in the future fluctuate significantly from quarter to quarter due to a number of factors, many of which are outside our control. These factors include, but are not limited to:

- growth in the market for enterprise synchronization applications and our ability to successfully address this market;
- our reliance on international sales and growth;
- our ability to penetrate the international market;
- market acceptance of products in which our software is integrated by original equipment manufacturers, or OEMs;
- our ability to realize our goals with respect to recent and potential future acquisitions;
- our need and ability to generate and manage growth;
- rapid evolution of technology;
- our evolving business model;
- litigation-related expenses;
- fluctuations in gross margins;
- the seasonal nature of the market for some of our products;
- changes in the market for mobility and identity search/screening software;
- introduction of new products and services by us or our competitors;
- the recent decline in the market for traditional personal digital assistants;
- changes in our mix of sources of revenue; and
- entrenched and substantial competition.

Additionally, we generally derive our technology licensing revenue from multi-year contracts with enterprise and other customers that frequently include license fees, professional services fees, royalty payments and maintenance. We typically earn both the license fees and the professional services in the initial one or two quarters subsequent to the signing of a contract. We periodically have large professional services implementations that individually contribute as much as 5% or more to quarterly revenue. Combined with related license revenue, total revenue from individual customers in the initial quarters of a contract may exceed the revenue we earn during subsequent periods covered by the contract. To the extent that we do not secure additional contracts with the same customer or secure comparably sized commitments from other customers, we may not be able to sustain or grow our revenue.

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*We may incur significant stock-based compensation charges related to certain stock options and restricted stock in future periods.*

The Financial Accounting Standards Board (FASB) issued in December 2004 Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment, an amendment of FASB Statements*

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Nos. 123 and 95, that addresses the accounting treatment for employee stock options and other share-based payment transactions. The statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expenses. The statement and the change in accounting treatment will result in our reporting increased operating expenses beginning for our next fiscal quarter ending October 31, 2005, which would decrease any reported net income or increase any reported net loss, and could adversely affect the market price of our common stock.

*We face intense competition in the market for mobile computing synchronization products and services, which could reduce our market share and revenue.*

Our market contains few substantial barriers to entry. We believe we will face additional competition from existing competitors and new market entrants in the future. We are subject to current and potential competition with respect to our Intellisync Handheld Edition, Intellisync Handheld Edition for Enterprise, Intellisync Mobile Suite, Intellisync SyncML and Identity Search Servers.

- Intellisync Mobile Suite enterprise server software CommonTime, Good Technology, Inc., Research In Motion Limited, Sybase Inc. s iAnywhere, and others.
- Intellisync Mobile Suite and Intellisync SyncML software for mobile carriers Good Technology, Inc., Research In Motion Limited, Seven Networks, Inc., Visto Corporation, and others.
- Intellisync consumer and enterprise desktop sync products Chapura, Inc. s Pocket Mirror, CommonTime s Cadenza mNotes, IBM Corporation, Microsoft Corporation ActiveSync, Palm Desktop from PalmSource, Inc., Sybase Inc. s iAnywhere, and others.
- Identity Search Server Ascential, Dataflux, Firstlogic, Group1, IBM Corporation, Intelligent Search Technology, Language Analysis Systems, Trillium Software, and others.

In addition to the direct competition noted above, we face indirect competition from existing and potential customers that may provide internally developed solutions for each of our technology licensing components. As a result, we must educate prospective customers as to the advantage of our products compared to internally developed solutions. We currently face limited direct competition from major applications and operating systems software vendors who may in the future choose to incorporate data synchronization functionality into their operating systems software, thereby potentially reducing the need for OEMs to include our products in their devices. For example, Microsoft s inclusion of certain features permitting data synchronization between computers utilizing the Windows Mobile and Exchange operating systems, or the Exchange 2003 platform, may have the effect of reducing revenue from our software if users of these operating systems perceive that their data synchronization needs are adequately met by Microsoft.

Many of our competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater brand recognition and more established relationships in the industry than we do. Our larger competitors may be able to provide customers with additional benefits in connection with their products and costs, including reduced communications costs. As a result, these companies may be able to price their products and services more competitively than we can and respond more quickly to new or emerging technologies and changes in customer requirements. If we are unable to compete successfully against our current or future competitors, we may lose market share, and our business and prospects would suffer.

Consolidation in wireless messaging and mobile computing synchronization industry may strengthen our competitors position in our market. Consolidation of our competitors has occurred, and we expect it

to continue to occur in the foreseeable future. Acquisitions may further strengthen our competitors' financial, technical and marketing resources.

***If we fail to develop and sell products designed for OEMs, enterprises and mobile carriers, our revenue and operating results will be adversely affected.***

We have recently made substantial investments to develop and offer an expanded range of enterprise synchronization applications, including our acquisition of PDAapps, Tourmaline, Synchrologic and Identity Systems. Our operating plans assume revenue growth from the enterprise market. Enterprise sales present a variety of challenges that are different from those inherent in our historical licensing and consumer business model, and we have limited experience addressing these challenges. For example, enterprise sales typically involve large up-front license fees, which can result in lengthy sales cycles and uncertainties as to the timing of sales driven by customers' budgetary processes. As a result, we generally have less visibility into future enterprise sales than is typically the case in our royalty-based technology licensing business. In addition, while enterprise sales generally result in ongoing maintenance revenue and may lead to follow-on purchases or upgrades, we are typically dependent on sales to new customers for a significant portion of our enterprise revenue in a given quarter. If our product and service offerings fail to achieve market acceptance, or if enterprise sales fail to meet our expectations in a particular quarter, our revenue and operating results may be materially and adversely affected.

***Our business and prospects depend, to a significant degree, on demand for wireless and other mobile computing devices.***

The use of wireless and other mobile computing devices for retrieving, sharing and transferring information among businesses, consumers, suppliers and partners has begun to develop only in recent years. Our success will depend in large part on continued growth in the use of wireless and other mobile computing devices, including handheld computers, smart phones, pagers and other mobile devices. In addition, our markets face critical unresolved issues concerning the commercial use of wireless and other mobile computing devices, including security, reliability, cost, ease of access and use, quality of service, regulatory initiatives and necessary increases in bandwidth availability. Demand for, and market acceptance of, wireless and other mobile computing devices which require our products and services are subject to a high level of uncertainty and are dependent on a number of factors, including:

- growth in sales of handheld devices, smart phones and other mobile computing devices supported by our software and growth in wireless network capabilities to match end-user demand and requirements;
- emergence of a viable and sustainable market for wireless and mobile computing services;
- our product and service differentiation and quality;
- the development of technologies that facilitate interactive communication between organizations;
- our distribution and pricing strategies as compared with those of our competitors;
- the growth in access to, and market acceptance of, new interactive technologies;
- increases in bandwidth for data transmission;
- the effectiveness of our marketing strategy and efforts;
- our industry reputation; and
- general industry and economic conditions such as slowdowns in the computer or software markets or the economy in general.

If the market for wireless and other mobile computing devices as a commercial or business medium does not develop, or develops more slowly than expected, our business, results of operations and financial condition will be seriously harmed.

Even if the wireless and mobile computing services market does develop, our products and services may not achieve widespread market acceptance. If our target customers do not adopt, purchase and successfully deploy our other current and planned products and services, our revenue will not grow significantly and our business, results of operations and financial condition will be seriously harmed.

***We are exposed to potential risks and we will continue to incur increased costs as a result of the internal control testing and evaluation process mandated by Section 404 of the Sarbanes-Oxley Act of 2002.***

Although we have now completed the documentation and testing of the effectiveness of our internal control over financial reporting for fiscal 2005, as required by Section 404 of the Sarbanes-Oxley Act of 2002, we expect we will have to incur continuing costs, including increased accounting fees and increased staffing levels, in order to maintain compliance with that section of the Sarbanes-Oxley Act. In the future, if we fail to complete the Sarbanes-Oxley 404 evaluation in a timely manner, or if our independent registered public accounting firm cannot attest in a timely manner to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Also, if our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to our practices, our reputation may be harmed or we may be subject to litigation.

Future acquisitions of companies, some of which may have operations outside the United States, may provide us with challenges in implementing the required processes, procedures and controls in our acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities law in the United States. Although we intend to devote substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, we cannot be certain that we will be successful in complying with Section 404.

***We are placing increasing emphasis on our hosting services, of which potential growth may be difficult to manage effectively, and, as a result, our results of operations could be adversely affected.***

We are increasingly focusing our sales and marketing and engineering efforts on hosting services. This focus may cause increased business risks associated specifically with our ability to manage the level of complexity involved in executing successfully our strategies to provide superior services for mobile carriers. The rapid growth of our hosting business may place a significant strain on our management, operations and resources. Our future performance and profitability will depend on our ability to:

- increase our capital investments and further build our infrastructure to meet the demands of our carrier customers;
- maintain technical capabilities to compete effectively in the hosting business; and
- effectively oversee and manage our outsourced hosting center.

There can be no assurance that our systems, procedures and controls will be adequate to support rapid expansion of our hosting services. If we are unable to manage such growth successfully, our business and results of operations could be harmed.

***Revenue from hosting services may carry lower gross margins and an overall increase in such revenue as a percentage of total revenue could have an adverse impact on our business.***

Our commitment to providing quality services to our enterprise and mobile carrier customers may result in our hosting service revenue having a lower gross margin than other services and license revenue. Due to the lower margin, an increase in the hosting service revenue as a percentage of total revenue could have a detrimental impact on our overall gross margins and could adversely affect operating results. In addition, a change in the mix between services that are provided by our own employees and those services provided by third-party vendors may negatively affect our gross margins.

***System failures or accidental or intentional security breaches could disrupt our operations, cause us to incur significant expenses, expose us to liability and harm our reputation.***

Our operations, including hosting services, depend upon our ability to maintain and protect our computer systems and core business applications, which are located at our offices, as well as hosted by third-party vendors. Although we are taking various precautions to maintain and protect our systems, they could still be vulnerable to damage from break-ins, unauthorized access, vandalism, fire, floods, earthquakes, power loss, telecommunications failures and similar events. We maintain insurance against break-in, unauthorized access, vandalism, fires, floods, earthquakes and general business interruptions. The amount of coverage, however, may not be adequate in any particular case, and will not likely compensate us for all the damages caused by these or similar events. In addition, while we put various security measures in place to detect any unauthorized access to our computers and computer networks, we may be unable to prevent computer programmers or hackers from penetrating our network security or creating viruses to sabotage or otherwise attack our computer networks from time to time. A breach of our security could seriously damage our operations or reputation. In addition, because a hacker who penetrates our network security could misappropriate proprietary information or cause interruptions in our services, we might be required to expend significant resources to protect against, or to alleviate, problems caused by hackers. We might also face liability to persons harmed by misappropriation of secure information if it is determined that we did not exercise sufficient care to protect our systems.

Systems failure or damage could cause an interruption of our services and result in loss of customers, difficulties in attracting new customers and could adversely impact our operating results. In addition, if the number of customers who purchase our hosting services increases over time, our systems must be able to accommodate increased usage. If we are unable to increase our capacity to accommodate growth in usage, we could encounter system performance issues, which could harm our relationships with customers and our reputation.

***We expect that we may become increasingly dependent on mobile carriers for the success of our wireless software.***

The success of our wireless business strategy is increasingly becoming dependent on our ability to establish new relationships and build on our existing relationships with domestic and international mobile carriers. We cannot assure you that we will be successful in establishing new relationships or advancing existing relationships with mobile carriers or that these mobile carriers will act in a manner that will promote the success of our wireless products. Factors that are largely within the control of mobile carriers but which are important to our success, include:

- the degree to which mobile carriers facilitate the introduction of and actively promote, distribute and resell our products;
- testing of our products on mobile carriers' networks;
- quality and coverage area of wireless services offered by the mobile carriers;



- the extent to which mobile carriers require specific hardware and software features on our products to be used on their networks;
- contractual terms and conditions imposed on us by mobile carriers that, in some circumstances, could limit our ability to make similar products available through competitive carriers in some market segments; and
- mobile carriers pricing requirements and subsidy programs.

Mobile carriers have significant bargaining power as we negotiate agreements with them. They could require contract terms that are difficult for us to meet and could result in higher costs to complete certification requirements and negatively impact our results of operations and financial condition. Mobile carriers also place significant conditions on our ability to develop and launch products for use on their wireless networks. If we fail to address the needs of mobile carriers, identify new product and service opportunities or modify or improve our products in response to changes in technology, industry standards or mobile carrier requirements, our products could rapidly become less competitive or obsolete. If we fail to timely develop products that meet carrier product planning cycles or fail to deliver sufficient quantities of products in a timely manner to mobile carriers, those carriers may choose to offer similar products from our competitors and thereby reduce their focus on and cease offering our products which would have a negative impact on our business, results of operations and financial condition.

In addition, the potential rapid growth of our business, as we become more dependent on mobile carriers, may place a strain on our management, operations, employees, or resources. We may not be able to maintain a rapid growth rate, effectively manage our expanding operations, or achieve planned growth on a timely or profitable basis. If we are unable to manage our growth effectively, we may experience operating inefficiencies, and our net income may be materially adversely affected.

***Most sales with mobile carriers and enterprises have a long sales cycle process, which increases the cost of completing sales and renders completion of sales less predictable.***

The sales cycle process with mobile carriers could be long, making it difficult to predict the quarter in which we may recognize revenue from a sale, if at all. The general length of the sales cycle increases our costs and may cause license revenue and other operating results to vary significantly from period to period. Our products or technology often are part of significant strategic decisions by our customers regarding their information systems. Accordingly, the decision to license our products typically requires significant pre-purchase evaluation. We spend substantial time providing information to prospective customers regarding the use and benefits of our products. During this evaluation period, we may expend significant funds in sales and marketing efforts. If anticipated sales from a specific customer for a particular quarter are not realized in that quarter, our operating results may be adversely affected.

***Our stock price has historically been and may continue to be volatile, which may cause you to lose money and could lead to costly litigation against us that could divert our resources.***

Stock markets have recently experienced dramatic price and volume fluctuations, particularly for shares of technology companies. These fluctuations can be unrelated to the operating performance of these companies. Broad market fluctuations may reduce the market price of our common stock and cause you to lose some or all of your investment. These fluctuations may be exaggerated if the trading volume of our common stock is low. In addition, due to the technology-intensive nature and growth rate of our business and the mobile computing synchronization market, the market price of our common stock has in the past and may in the future rise and fall in response to:

- quarterly variations in operating results;
- seasonal fluctuations on product sales;

- announcements of technological innovations;
- announcements of new software or services by us or our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- commencement or outcome of litigation involving us;
- changes in financial estimates by securities analysts; and
- other events beyond our control, including general market conditions.

Furthermore, our operating results and prospects from time to time may be below the expectations of public market analysts or investors. Any negative change in the public's perception of companies in the wireless communications market could depress our stock price regardless of our operating results. Recently, companies experiencing high volatility or significant drops in their stock prices have faced securities class action lawsuits when the market price of a stock has been volatile. Holders of that stock have often instituted securities class action litigation against the company that issued the stock when such stock declines. If any of our stockholders brought such a lawsuit against us, we could incur substantial costs defending the lawsuit. We maintain some level of insurance for such matters however we cannot guarantee that such insurance will be available or will cover the amount of any award. The lawsuit could also divert the time and attention of our management. Further, any settlement of such a lawsuit could adversely affect us.

***We may be unable to adequately protect our proprietary rights.***

The rights we rely upon to protect our intellectual property underlying our products and services may not be adequate, which could enable third parties to use our technology and would reduce our ability to compete in the market. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. These efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology. These efforts also may not prevent others from developing products or technologies similar to, competitive with, or superior to those we develop. Any of these results could reduce the value of our intellectual property. We may be forced to litigate to enforce or defend our intellectual property rights and to protect our trade secrets. Any such litigation could be very costly and could distract our management from focusing on operating our business. Moreover, our business could be harmed if our patents were determined to be invalid.

***We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future.***

Third parties may assert infringement or other intellectual property claims against us. From time to time, we receive notices from third parties alleging that our products or services infringe proprietary rights held by them. For example, as we announced in August 2004, NCR Corporation filed a complaint alleging patent infringement in the U.S. District Court for the Southern District of Ohio Western Division (Dayton). In the complaint, NCR alleged that certain of our products infringe upon three of NCR's patents. That case was settled and dismissed by mutual agreement in July 2005. Our customers may receive notices of patent or other infringement from third parties and ask for indemnification in the future. We cannot predict whether third parties will assert claims of infringement against us, or whether any past, present or future claims will prevent us from offering products or operating our business as planned.

Due to the inherently uncertain nature of intellectual property protection and the competitive area in which we operate our business, it is possible that some or all of our products and services could be found to be infringing on the intellectual property of others. We may have to pay substantial damages, including

treble damages, for past infringement if it is ultimately determined that our products or services infringe a third party's proprietary rights. We may have to comply with injunctions, or stop distributing our products and services while we re-engineer them or seek licenses to necessary technology, which might not be available on reasonable terms, or at all. We could also be subject to claims for indemnification resulting from infringement claims made against our customers, which could increase our defense costs and potential damages. Even if the claims are without merit, defending a lawsuit takes significant time, may be expensive and may divert management's attention from other business concerns.

***We have been, are and may in the future be involved in litigation that could result in significant costs to us.***

In order to protect our proprietary rights, we may decide to sue other companies. Litigation proceedings are inherently uncertain, and we may not prevail in our defenses or claims. In addition, such litigation is expensive and time-consuming, and management has been in the past and may in the future be required to spend significant time in the prosecution of such suits. If we do not prevail in our claims, we might be forced to accept an unfavorable settlement or judgment and even be required to reimburse other companies in a suit for their legal expenses in defending the suit. An unfavorable settlement or judgment could also materially harm our ability to use existing intellectual property and severely harm our business as a result.

***Future sales of our common stock, including the shares underlying the convertible senior notes we recently issued, may depress our stock price.***

If our current stockholders sell substantial amounts of common stock in the public market, the market price of our common stock could fall. In addition, these sales of common stock could adversely affect the trading price of our recently issued convertible senior notes and impede our ability to raise funds in the future at an advantageous price, or at all, through another sales of securities.

As of July 31, 2005, we had approximately 66,639,299 shares of common stock outstanding. Assuming that the maximum number of shares and options are issued and registered by us in connection with all of our recent acquisitions and assuming that all shares subject to vested options to purchase common stock under our stock plans are issued, additional shares of our common stock could become issued or issuable and freely tradeable in the public market through approximately July 31, 2006, as follows:

- approximately 360,000 shares of our common stock that may be issued in August 2005 and February 2006 under our employee stock purchase plan; and
- approximately 6,350,000 shares issuable upon exercise of outstanding options that will be vested by July 31, 2006.

In addition, conversion of some or all of the \$60,000,000 aggregate principal amount of convertible subordinated notes that we issued in March 2004 will dilute the ownership interests of investors. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices for our common stock.

***If we fail to maintain our existing relationships or enter into new relationships with OEM and business development organizations, or if products offered by our OEM partners fail to achieve or maintain market acceptance, our brand awareness, the sales of our products and use of our services would suffer.***

Our revenue from technology licensing depends, in large part, on our ability to develop and maintain relationships with OEMs and business development organizations that help distribute our products and promote our services. We depend on these relationships to:

- distribute our products to purchasers of mobile devices;

- increase the use of our technology licensing components;
- build brand awareness through product marketing; and
- market our products and services cooperatively.

If the products that these equipment manufacturers or business development organizations sell, or if the operating systems upon which these products are based, fail to achieve or sustain market acceptance, or if any of these companies cease to use our product and service offerings in significant volumes, our product sales would decline and our business would suffer. For example, if growth in the number of devices sold by our OEM partners is delayed or did not occur, our business would suffer.

Although several OEMs are subject to certain contractual minimum purchase obligations, we cannot be certain that any particular OEM will satisfy its minimum obligations. Weakening demand from any key OEM and the inability to replace revenue provided by such an OEM could have a material adverse effect on our business, operating results and financial condition. We maintain individually significant receivable balances from major OEMs. If these OEMs fail to meet their payment obligations, our operating results could be materially and adversely affected.

Our agreements with OEMs, distributors, and resellers generally are nonexclusive and may be terminated on short notice by either party without cause. Furthermore, our OEMs, distributors and resellers are not within our control, are not obligated to purchase products from us, and may represent other lines of products, including competing products. A reduction in sales effort or discontinuance of sales of our products by our OEMs, distributors, and resellers could lead to reduced sales and could materially adversely affect our operating results.

***Our market changes rapidly due to evolution in technology and industry standards. If we do not adapt to meet the sophisticated needs of our customers, our business and prospects will suffer.***

The market for our products and services is characterized by rapidly changing technology, evolving industry standards and frequent new product and service introductions. For example, the traditional personal digital assistant market, is declining and may continue to do so. Our future success will depend to a substantial degree on our ability to offer products and services that adapt to these changing markets, incorporate leading technology, address the increasingly sophisticated and varied needs of our current and prospective customers and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. Our rapidly evolving market makes it more likely that:

- our technology or products may become obsolete upon the introduction of alternative technologies;
- we may not have sufficient resources to develop or acquire new technologies or to introduce new products or services capable of competing with future technologies or service offerings of other companies; and
- we may not have sufficient resources to develop or acquire new technologies or to introduce new products or services capable of competing with future technologies or service offerings of other companies.

To the extent we determine that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of these technologies and equipment are likely to continue to require significant capital investment by us. Moreover, we cannot be certain that we can develop, market and deliver new products and technology on a timely basis. Sufficient capital may not be available for this purpose in the future, and even if it is available, investments in new technologies may not result in commercially viable technological processes and there may not be commercial applications for such technologies. If we do not develop, acquire and introduce new products and services and achieve market acceptance in a timely manner, our business and prospects will suffer.

*If we fail to maintain an effective system of internal controls, we may not be able to detect fraud or report our financial results accurately, which could harm our business.*

Effective internal controls are necessary for us to provide reliable financial reports and to detect and prevent fraud. We periodically assess our system of internal controls, and the internal controls of service providers upon which we rely, to review their effectiveness and identify potential areas of improvement. These assessments may conclude that enhancements, modifications or changes to our system of internal controls are necessary. In addition, from time to time we acquire businesses, many of which have limited infrastructure and systems of internal controls. Performing assessments of internal controls, implementing necessary changes, and maintaining an effective internal controls process is expensive and requires considerable management attention, particularly in the case of newly acquired entities. Internal control systems are designed in part upon assumptions about the likelihood of future events, and all such systems, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. If we fail to implement and maintain an effective system of internal controls or prevent fraud, we could suffer losses, could be subject to costly litigation, investors could lose confidence in our reported financial information and our brand and operating results could be harmed, which could have a negative effect on the trading price of our common stock.

*We are dependent on our international operations for a significant portion of our revenue.*

International revenue, primarily from customers based in Europe and Asia Pacific, accounted for 31%, 33% and 36% of our revenue in fiscal 2005, 2004 and 2003, respectively. In the future, we may further expand our international presence. As we continue to expand internationally, we are increasingly subject to risks of doing business internationally, including:

- longer payment cycles and problems in collecting accounts receivable;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- unexpected changes in regulatory requirements and tariffs;
- export controls relating to encryption technology and other export restrictions;
- reduced protection for intellectual property rights in some countries;
- fluctuations in currency exchange rates, against which we do not currently hedge;
- difficulties in staffing and managing international operations; and
- an adverse effect on our provision for income taxes based on the amount and mix of income from international customers.

Our international sales growth will be limited if we, in the future, are unable to expand international sales channel management and support, customize products for local markets, and develop relationships with international service providers, distributors and device manufacturers. For example, in recent quarters we have invested substantially in expanding sales operations, and these investments may not generate offsetting increases in revenue. Even if we are able to expand international operations successfully, we cannot be certain that we will succeed in maintaining or expanding international market demand for our products.

***Geographic expansion and growth, including the establishment of new sales or engineering operations, may negatively affect our overall operations and cause us to incur significant additional costs and expenses.***

We have an engineering facility in Delhi, India, gained through our acquisition of PDAapps, and we established engineering facilities in Sofia, Bulgaria and Cluj-Napoca, Romania. In the future, we may further expand our engineering or sales operations to other geographic areas within the United States and internationally. Our expansion may cause us to incur various costs and expenses, and may place a significant strain upon our operating and financial systems and resources that could materially adversely affect our financial results following such an expansion. We also face significant business risks related to the difficulty in assimilating new operations and the diversion of management's attention from other business. Additionally, if we fail to align employee skills and populations with revenue and market requirements, it may have a material adverse impact on our business and operating results. Moreover, these newly established operations may not contribute significantly to our sales or earnings.

***Foreign exchange fluctuations could decrease our revenue or cause us to lose money, especially since we do not hedge against currency fluctuations.***

We believe that in the future, an increasing portion of our costs will be denominated in foreign currencies as we increase operations in Europe and open offices in other countries. We currently do not engage in foreign exchange hedging activities and, although we have not yet experienced any material losses due to foreign currency fluctuation, a portion of our international revenue are currently subject to the risks of foreign currency fluctuations, and these risks will increase as our international revenue increases.

***Our recent and any potential acquisitions could require significant management attention and prove difficult to integrate with our business, which could distract our management, disrupt our business, dilute stockholder value and adversely affect our operating results.***

As part of our strategy, we intend to continue to make investments in complementary companies, products or technologies. We recently acquired PDAapps, Inc. (June 2005), Tourmaline Networks, Inc. (in March 2005), SoftVision SRL's workforce (through a transfer in June 2004), Identity Systems (in March 2004), Synchronologic, Inc. (in December 2003) and Spontaneous Technology, Inc. (in September 2003). We may not realize future benefits from any of these acquisitions, or from any acquisition we may make in the future. If we fail to integrate successfully our past and future acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected. Any integration process will require significant time and resources, and we may not be able to manage the process successfully. If our customers are uncertain about our ability to operate on a combined basis, they could delay or cancel orders for our products. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges.

Acquisitions involve a number of additional difficulties and risks to our business, including, but not limited to, the following:

- failure to integrate management information systems, personnel, research and development and marketing, sales and support operations;
- potential loss of key employees from Intellisync or the acquired company;
- disruption of our ongoing business;
- potential loss of the acquired company's customers;
- failure to develop further the acquired company's technology successfully, resulting in the potential impairment of amounts capitalized as intangible assets under SFAS No. 142, *Goodwill and Other*

*Intangible Assets* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*;

- unanticipated costs and liabilities, including those that may arise from disputes over the earnout provision of the acquisition agreement; and
- amortization expenses related to intangible assets (other than goodwill).

Further, we have issued common stock and paid cash for recent acquisitions and may have to pay cash, incur debt or issue equity securities to pay for any future acquisition, each of which could affect our financial condition or the market price of our common stock. The sale of additional equity or debt to finance such future acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

***Goodwill and other intangibles resulting from our acquisitions could become impaired.***

As of July 31, 2005, our goodwill, developed and core technology and other intangibles amounted to \$94,420,000, net of accumulated amortization. We ceased to amortize our existing goodwill upon our adoption of SFAS No. 142 in the beginning of fiscal 2003. We will amortize approximately \$8,616,000, \$7,980,000, \$4,404,000, \$2,190,000 and \$2,756,000 for fiscal 2006, 2007, 2008, 2009 and thereafter, respectively, of developed and core technology and other intangibles. We expect, however, that amortization expense may increase significantly as a result of any future acquisitions. To the extent we do not generate sufficient cash flows to recover the net amount of any investment in goodwill and other intangibles recorded, the investment could be considered impaired and subject to write-off. We expect to record further goodwill and other intangible assets as a result of any future acquisitions we may complete. Future amortization of such other intangible assets or impairments, if any, of goodwill would adversely affect our results of operations in any given period.

***We depend on key employees in a competitive market for skilled personnel.***

The success of our business will continue to depend upon certain key technical and senior management personnel, including our president and chief executive officer, chief operating officer, chief marketing officer, chief financial officer and other key senior executives, many of whom would be extremely difficult to replace. Competition for such personnel is intense, and we cannot be certain that we will be able to retain our existing key managerial, technical, or sales and marketing personnel. The loss of these officers and other or key employees in the future might adversely affect our business and impede the achievement of our business objectives. We believe our ability to achieve increased revenue and to develop successful new products and product enhancements will depend in part upon our ability to attract and retain highly skilled sales and marketing and qualified product development personnel. In addition, competition for employees in our industry and geographic location could be intense. We may not be able to continue to attract and retain skilled and experienced personnel on acceptable terms. Our ability to hire and retain such personnel will depend in part upon our ability to raise capital or achieve increased revenue levels to fund the costs associated with such personnel. Failure to attract and retain key personnel may adversely affect our business.

***If we are unable to provide satisfactory and high quality services through our professional services group, customer satisfaction and demand for our products will suffer.***

Many of our customers have been successful in implementing our various technology initiatives without further provision of technical service. However, we believe that building strong relationships with our customers, as well as future growth in our product sales, depends on our ability to provide our customers with professional services, including customer support, training, consulting and initial

implementation and deployment of our products when necessary. We have an in-house professional services group and use international software development partners with a workforce that can perform these tasks and that also educates third-party systems integrators in the use of our products so that these systems integrators can provide these services to our customers. If we are unable to develop sufficient relationships with third-party systems integrators and other customers, unable to complete product implementations in a timely manner, or unable to provide customers with satisfactory and quality support, consulting, maintenance and other services, we could face customer dissatisfaction, damage to our reputation, decreased overall demand for our products and loss of revenue.

***We may have to spend substantial funds on sales and marketing in the future.***

To increase awareness for our new and existing products, technology and services, we may have to spend significantly more on sales and marketing in the future. We also plan to continue to leverage our relationships with industry leaders and to expand and diversify our sales and marketing initiatives to increase our sales to mobile carriers and enterprises. If our marketing strategy is unsuccessful, we may not be able to recover these expenses or even generate any revenue. We will be required to develop a marketing and sales campaign that will effectively demonstrate the advantages of our products, technology and services. We may also elect to enter into agreements or relationships with third parties regarding the promotion or marketing of our products, technology and services. We cannot be certain that we will be able to establish adequate sales and marketing capabilities, that we will be able to enter into marketing agreements or relationships with third parties on financially acceptable terms, or that any third parties with whom we enter into such arrangements will be successful in marketing and promoting the products, technology and services offered by us.

***Our products may contain errors that could subject us to product-related claims.***

Our products may contain undetected errors or failures, which can result in loss of or delay in market acceptance and could adversely impact future operating results. Our insurance may not cover us for certain claims related to product failures. Although our license agreements contain provisions limiting our liability in the case of damages resulting from use of the software, in the event of such damages, we may be found liable, and in such event, such damages could materially affect our business, operating results and financial condition.

***Our revenue from consumer sales is subject to risks associated with the declining wired PDA market and reliance on sales distribution channels.***

While the market for converged mobile devices or smartphones and other wireless mobile devices has experienced growth recently, the market for traditional personal digital assistants, or PDAs, has declined. The decline in traditional PDA sales had a direct impact on sales of our Intellisync products through the consumer and online channels, where sales of our synchronization software typically occur at the same time a PDA is purchased, or shortly thereafter. The increase in demand for smartphones and other such devices may not offset the decline in traditional PDA sales. Our consumer sales are also dependent upon distribution and marketing channels outside our control. There are also a significant number of our customers that purchase our products and services through other resellers, and we anticipate they will continue to do so as we expand our product offerings. Our sales, therefore, could also be negatively affected by disruptions in our relationships with resellers or disruptions in the relationships between our resellers and customers. Resellers may also choose not to emphasize our products to their customers. If we are unable to offset declining revenue from PDA-related software, or if we experience disruption in, or reduced selling efforts from, our distribution channels, our revenue derived from consumer sales would be adversely affected.



***We may need to raise additional capital in the future resulting in dilution to our stockholders.***

We may need to raise additional funds for our business operations and to execute our business strategy. We may seek to sell additional equity or debt securities or to obtain an additional credit facility. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights that are senior to holders of common stock and could contain covenants that would restrict our operations. Any additional financing may not be available in amounts or on terms acceptable to us, if at all.

***We may not have sufficient cash flow to make payments on any debt we may incur.***

Our ability to pay principal and interest on our existing and any future indebtedness and to fund our planned capital expenditures depends on our future operating performance. Our future operating performance is subject to a number of risks and uncertainties that are often beyond our control, including general economic conditions and financial, competitive and regulatory factors. Consequently, we cannot assure you that we will have sufficient cash flow to meet our liquidity needs, including making payments on existing and any future indebtedness.

***The fundamental change redemption rights in our outstanding convertible senior notes could discourage a potential acquirer.***

If we engage in any transaction or event in connection with which all or substantially all of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration which is not all or substantially all common stock listed on a United States national securities exchange or approved for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices, or, if for any reason, our common stock is no longer listed for trading on a United States national securities exchange nor approved for trading on the Nasdaq National Market (a fundamental change), we may be required to redeem all or part of the notes and this could discourage a potential acquirer. However, this redemption feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer or solicitation, or part of a plan by management to adopt a series of anti-takeover provisions. The term fundamental change is limited to specified transactions and may not include other events that might adversely affect our financial condition or business operations. Our obligation to offer to redeem the notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

***We may not have the ability to raise the funds necessary to finance the fundamental change redemption option associated with our outstanding convertible senior notes.***

If we engage in any transaction or event in connection with which all or substantially all of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive consideration which is not all or substantially all common stock listed on a United States national securities exchange or approved for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices, or, if for any reason, our common stock is no longer listed for trading on a United States national securities exchange nor approved for trading on the Nasdaq National Market, we may be required to redeem all or part of the notes. We may not have enough funds to pay the redemption price for all tendered notes. In addition, any credit agreement or other agreements relating to our indebtedness may contain provisions prohibiting redemption of the notes under certain circumstances, or expressly prohibit our redemption of the notes upon a designated event or may provide that a designated event constitutes an event of default under that agreement. Our failure to redeem tendered notes would constitute an event of default under the indenture, which might also constitute a default under the terms of our other indebtedness.

*Our certificate of incorporation, our bylaws, Delaware law and our stockholder rights plan contain provisions that could discourage a takeover.*

Provisions of our certificate of incorporation, our bylaws, Delaware law and our stockholder rights plan contain provisions that may discourage, delay or prevent a merger or acquisition or other change of control that a stockholder may consider favorable.

#### EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

The executive officers and directors of Intellisync as of October 17, 2005, are as follows:

Name	Age	Position
Woodson Hobbs	58	President, Chief Executive Officer and Director
David P. Eichler	56	Chief Financial Officer
Clyde Foster	44	Chief Operating Officer
Robert Gerber	42	Chief Marketing Officer
Blair Hankins	51	Senior Vice President of Technology, Client Development
Scott Hrastar	41	Senior Vice President of Technology, Servers and Hosted Services
J. Keith Kitchen	42	Chief Accounting Officer and Principal Accounting Officer
Michael M. Clair	57	Chairman of the Board, the Compensation Committee and the Nomination and Governance Committee and Member of the Audit Committee and the Special Strategy Committee
Richard W. Arnold	57	Director, Chairman of the Audit Committee and the Special Strategy Committee and Member of the Nomination and Governance Committee
Kirsten Berg-Painter	45	Director and Member of the Compensation Committee
Keith A. Cornell	45	Director and Member of the Compensation Committee
Said Mohammadioun	58	Director
Terrence Valeski	58	Director and Member of the Audit Committee and the Nomination and Governance Committee

*Mr. Hobbs* became the president and chief executive officer of the Company in June 2002. He has also served as a director of the Company since joining the company. Prior to joining the Company, Mr. Hobbs served as a consulting executive for the venture capital community, and as a strategic systems consultant to large corporations. From 1995 to 2002, Mr. Hobbs held the position of interim chief executive officer at the following companies: FaceTime Communications, a provider of instant messaging network-independent business solutions; Tradenable, Inc., an online escrow service company; BigBook, Inc., a pioneer in the online yellow pages industry; and I/PRO Corporation, a leader in quantitative measurement of Web site usage. From 1993 to 1994, Mr. Hobbs served as chief executive officer of Tesseract Corporation, a human resources outsourcing and software company. Mr. Hobbs spent the early part of his career with Charles Schwab Corporation, a securities brokerage and financial service company, as chief information officer and with Service Bureau, a division of International Business Machines Corporation, or IBM, the world's largest information technology company, as one of the developers and the director of operations of Online Focus, an online credit union system that ultimately served over 20 million members.

*Mr. Eichler* became the chief financial officer of the Company in October 2005. Prior to joining the Company, Mr. Eichler was vice president of finance and chief financial officer of SiNett Corporation, an integrated chip and software company in the wireless network market from September 2004 to October 2005. From October 2002 to September 2004, Mr. Eichler was vice president of finance and chief financial officer of Tripath Technology, Inc. a fabless semiconductor company. Mr. Eichler was vice president of finance, chief financial officer and corporate secretary with Gadzoox Networks, Inc., a supplier of storage area networking equipment and software, from March 2001 to May 2002, vice president of finance and administration and chief financial officer with Alliance Semiconductor Corporation, a provider of memory and analog and mixed signal products, from December 1999 to March 2001 and vice president of finance and chief accounting officer with Adobe Systems, Inc., a maker of graphics and publishing software, from December 1997 through December 1998. Mr. Eichler is a certified public accountant and received his BS degree in Accounting from Northeastern University and MBA degree from the University of California Los Angeles.

*Mr. Foster* became the chief operating officer of the Company in July 2004 overseeing corporate operations and the sales of the Company's products to leading enterprises, OEMs, and wireless operators. Mr. Foster previously served as senior vice president of sales and marketing since joining the Company in September 2002. From July 1999 to September 2002, Mr. Foster served as president and chief executive officer of eConvergent, Inc., a next-generation customer data integration software company. Prior to founding eConvergent, Mr. Foster established and led the Global Solutions Services division of Aspect Communications Corporation, a provider of business communications solutions from April 1996 to June 1999. Previously, Mr. Foster held a variety of sales and professional services management positions during his 14 years at IBM. Mr. Foster holds a BS degree in Mathematics from North Carolina State University.

*Mr. Gerber* became the chief marketing officer, overseeing all marketing, strategy, and e-commerce operations, of the Company in April 2004. Most recently, prior to joining the Company, Mr. Gerber served as managing director and group vice president of Carlson Marketing Group, a relationship marketing company. Mr. Gerber also held a variety of management and consulting positions at Digitas, Inc., an integrated marketing agency, from 2001 to 2004; Deloitte Consulting, a global management consulting firm, from 1992 to 1995; and American Express Company, a diversified worldwide travel, financial, and network services company, from 1987 to 1990. Mr. Gerber is the founder of and led @once, Inc., a private email messaging company, from 1995 to 2000. Previously, Mr. Gerber, served as chief marketing and strategy officer of Commtouch Software Limited, an email infrastructure company. Mr. Gerber holds a BS in engineering degree from the University of Virginia and an MBA degree from Harvard University.

*Mr. Hankins* became the senior vice president of technology, client development, of the Company in October 2005 responsible for ensuring Intellisync's wireless messaging products offer the best possible user experience for mobile professionals worldwide. Mr. Hankins previously served as vice president of engineering for Witness Systems, Inc, a leading provider of call center workforce optimization software from August 2004 to September 2005. From January 2003 to August 2004, Mr. Hankins was co-founder and served as chief technology officer of Ascendant Technology, LLC, a provider of industry-specific portal based solutions. From September 1989 to December 2002, Mr. Hankins served as a director of messaging solutions division of IBM Corporation. Mr. Hankins holds a BA degree in mathematics from Ohio State University and an MA degree in mathematics from University of Maryland.

*Mr. Hrastar* became the senior vice president of technology, servers and hosted services, of the Company in August 2005. Mr. Hrastar previously served as chief technical officer and vice president of engineering for AirDefense, Inc, a wireless LAN security software vendor from October 2001 to August 2005. From October 2000 to October 2001, Mr. Hrastar was vice president of engineering with Lancope, Inc., a network security intrusion detection software developer. From September 1997 to September 2000, Mr. Hrastar served as vice president of research and advanced technology division of



Pathfire, Inc., a digital television distribution software-maker. Mr. Hrastar also served in a variety of engineering positions at Scientific-Atlanta, Inc., a provider of DVR and high-definition set-tops, from 1993 to 1997 and Hitachi-Telecom (USA), Inc., a developer and manufacturer of access systems, high-speed optical networking equipment and customer premises products for the U.S. market, from 1998 to 1993. Mr. Hrastar holds a B.S. degree in electrical engineering from Ohio State University and earned both M.S. and Ph.D. degrees in electrical engineering from the Georgia Institute of Technology.

*Mr. Kitchen* became chief accounting officer of the Company upon his resignation as chief financial officer, effective upon the appointment of his successor. Mr. Kitchen has agreed to remain with the Company as the Company's principal accounting officer for an undetermined amount of time following the appointment of his successor in order to provide transition services to the Company and the newly appointed chief financial officer. Mr. Kitchen served as chief financial officer of the Company from July 2004 to October 2005. Mr. Kitchen also served as vice president of finance and administration and chief accounting officer from August 2002 to July 2004 and also as corporate controller since joining the Company in February 2000 with the Company's acquisition of NetMind Technologies, Inc., a venture capital-funded Internet software company. Mr. Kitchen joined NetMind in January 1999 as its controller and later became its vice president of finance and administration from July 1999 to February 2000. Mr. Kitchen also served in a variety of financial management positions at Intellect Electronics, Inc., a provider of electronic commerce and smart card solutions, from March 1997 to December 1998, and at Bausch & Lomb, Inc., a global technology based healthcare company, from July 1990 to March 1997. Previously, Mr. Kitchen served as certified public accountant with Ernst & Young LLP, a professional services organization. Mr. Kitchen holds a bachelor of science in business administration degree from Bucknell University and is a graduate of Northwestern University's Kellogg Graduate School of Management.

*Mr. Mohammadioun* became a director of the Company in December 2003 and most recently served as the Company's chief technology officer from December 2003 to October 2005. From October 1996 to December 2003, Mr. Mohammadioun served as chief executive officer of Synchronic, Inc., a provider of mobile infrastructure solutions, which was acquired by Intellisync in December 2003. Previously, Mr. Mohammadioun served as vice-president of Lotus Development Corporation, a provider of knowledge management solutions, from 1990 to 1995. From 1983 to 1990, he was the chief executive officer of Samna Corporation, a word-processing software company founded by Mr. Mohammadioun in 1983. Samna was sold to Lotus Development Corporation in 1990. Mr. Mohammadioun holds a master degree in electrical engineering from Georgia Institute of Technology and an MBA degree from Georgia State University.

In October 2005, Mr. Mohammadioun gave notice to the Company of his intention to resign as a member of the Company's Board of Directors, effective as of the end of his current term, which is scheduled to expire at the Company's 2005 annual meeting of stockholders.

*Mr. Clair* became a director of the Company in December 1994 and has served as chairman of the board of the Company since March 1995. Since June 1995, Mr. Clair has served as an independent financial consultant. Mr. Clair was a founder of SynOptics Communications (now Nortel Networks), a computer networking company, and from January 1987 to November 1992, served as vice president of sales and marketing and then as senior vice president of sales and customer service of SynOptics. Mr. Clair has more than 30 years of experience in data processing, data and voice communications and local area networking, as well as various wireless technologies. He spent the early part of his career with Tymshare, Inc., a computer time-sharing company, and ROLM, a manufacturer of digital PBX equipment, in a variety of sales and marketing positions. He holds a BS degree in business and an MBA degree from the University of Buffalo. Mr. Clair is a director of several private companies.

*Mr. Arnold* became a director of the Company in May 2004. Since June 2001, Mr. Arnold has served as founding partner of Committed Capital Proprietary Limited, a private equity investment company based in



Sydney, Australia. From August 1999 to May 2001, Mr. Arnold served as executive director of Consolidated Press Holdings Limited, also a private investment company based in Sydney. Previously, Mr. Arnold served as managing director of TD Waterhouse Australia, a securities dealer; as chief executive officer of Integrated Decisions and Systems, Inc., an application software company; as managing director of Eagleroo Proprietary Limited, a corporate advisor company; and in various capacities with Charles Schwab & Company, Inc., a securities and financial services brokerage, including serving as chief financial officer and as executive vice president Strategy and Corporate Development. Mr. Arnold holds a BS degree in psychology from Stanford University.

*Ms. Berg-Painter* became a director of the Company in August 2001. Since November 2000, Ms. Berg-Painter has served as an independent marketing consultant. From July 1998 to October 2000, Ms. Berg-Painter served as senior vice president of worldwide marketing at Clarify, Inc., an enterprise customer relationship management, or CRM, company. From 1989 to 1998, Ms. Berg-Painter served in various capacities with Aspect Communications Corporation, a provider of customer relationship portals, last serving as general manager and vice president of one of its product divisions. Previously, Ms. Berg-Painter served as director of product marketing for AST Research, Inc., a personal computer manufacturer, and as director of marketing for Syntellect, Inc., a provider of call-center technology and hosted service solutions. Ms. Berg-Painter began her career at IBM where she held various systems engineering and marketing positions. She holds a BA degree in business and economics from University of California, Los Angeles and attended business school at Norges Handelshøyskolen in Bergen, Norway.

*Mr. Cornell* is a UK chartered director and became a director of the Company in May 2005. Since 2002, Mr. Cornell has served as chief executive officer of Empower Interactive Ltd., a private specialized messaging platform company working globally with mobile operators. From 2001 to 2002, Mr. Cornell served as president of British Telecom Wireless plc., a mobile telecommunications company, for its Europe operations and in the same position in its spin-off, O2. Between May and October 2001, he served as interim chief executive officer for British Telecom's Viag Intercom unit in Germany. From 1999 to 2001, Mr. Cornell worked for Firstmark Communications, a Pan-European broadband company, as a senior vice president of business development. From 1995 to 1999, Mr. Cornell served in various capacities including as executive director and vice president of international operations with Vodafone Airtouch International, Ltd. Previously, Mr. Cornell served as director or senior manager for various companies including Airtouch Communications, Inc., a wireless communications company, and Marakon Associates, a value-based strategy consultancy firm. He holds a BS degree in engineering from Harvey Mudd College and an MBA degree from Carnegie Mellon University.

*Mr. Valeski* became a director of the Company in May 2005. From 2000 to 2005, Mr. Valeski served as chief executive officer and managing director of Eurotel Praha, a leading provider of wireless voice and data services in the Czech Republic. From 1997 to November 2000, Mr. Valeski served in various capacities with British Telecommunications plc (BT), a United Kingdom telecommunications company, as director for mobile marketing outside UK and later as chief operating officer and chief marketing officer for BT's other divisions or joint ventures such as Telfort, Blu and BT Wireless in Holland and Italy. From 1994 to 1997, Mr. Valeski worked for Pacific Bell Mobile Services, a diversified telecommunications company, as a senior vice president and later as president and general manager. Previously, Mr. Valeski served as senior vice president of sales and marketing for various companies including Atari Corporation, a manufacturer of video games; Mattel, Inc., the world's largest toy company; Teledyne WaterPik, Inc., a diversified manufacturing company; and J. Walter Thompson Company, a New York-based advertising agency. He holds an EA degree in liberal arts from the University of Arizona. Mr. Valeski is a director of several private companies.

**ITEM 2. PROPERTIES**

At July 31, 2005, we leased the facilities described below:

<b>Location</b>	<b>Function</b>	<b>Square Feet</b>	<b>Lease Expiration Date</b>
<b>United States</b>			
San Jose, CA	Corporate headquarters, administrative offices, engineering and sales and marketing	33,821(1)	June 2006
Los Gatos, CA		15,000(2)	August 2005
Santa Cruz, CA		20,924(3)	May 2006
Solano Beach, CA	Administrative offices and sales and marketing	2,776	May 2006
Greenwich, CT	Administrative offices and sales and marketing	4,276	January 2008
Alpharetta, GA	Administrative offices, engineering, professional services and sales and marketing	22,409	December 2008
Salt Lake City, UT	Engineering	5,717	April 2006
<b>Europe</b>			
Sofia, Bulgaria	Engineering and professional services	15,200	April 2007
Cologne, Germany	Sales	2,949	June 2007
Cluj-Napoca, Romania	Engineering and professional services	8,611	May 2009
Reading, United Kingdom	Sales	1,429	August 2007
<b>Asia-Pacific</b>			
Canberra, Australia	Engineering	3,014	August 2008
Sydney, Australia	Administrative offices and sales and marketing	2,626	June 2006
Delhi, India	Engineering	5,656	July 2008
Tokyo, Japan	Administrative offices and sales and marketing	3,024	July 2006

- (1) 6% of property is subleased to a third-party for the duration of the lease term.
- (2) Subleased to a third-party for the duration of the lease term.
- (3) Available for sublease.

The properties located in Solano Beach, California and Delhi, India were leased in May 2006 and July 2006 for the employees of our newly acquired subsidiaries Tourmaline and PDAapps, respectively. We believe that these facilities are adequate to meet the present and future operational requirements of our newly acquired subsidiaries.

We lease space in Los Gatos and Santa Cruz, California for offices that were closed as a result of the restructuring and cost reduction plans we implemented in previous fiscal years. Refer to the discussions under the caption *Restructuring and Other Charges* set forth in Item 7, Part II of this Annual Report on Form 10-K for more information on the restructure charges related to these facilities. We have secured tenants for some of our vacated facilities and are actively marketing to sublet the remainder. We have experienced difficulties, however, in subletting our vacated office in Santa Cruz, California because of the continuing deterioration of the real estate markets in that location.

We believe that our existing facilities are sufficient to meet our present and future foreseeable needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.



**ITEM 3. LEGAL PROCEEDINGS**

On October 5, 2005, Plaintiff Spontaneous Technology, Inc. served the Company with a complaint filed in the Third Judicial District Court, of Salt Lake County, State of Utah. In the Complaint, Plaintiff asserts a cause of action for breach of contract related to the calculation of an earnout payment in the Asset Purchase Agreement entered into between the parties on July 30, 2003. Plaintiff seeks compensatory damages in the amount of \$673,750 and recovery of its attorneys' fees and costs. We believe the action has no merit and are vigorously defending against it. We cannot estimate any possible loss at this time.

We are party to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to acquisitions we have completed or to companies we have acquired, commercial, employment and other matters. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these claims or any of the above mentioned legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flow. In accordance with generally accepted accounting principles, we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against Intellisync. It is possible, nevertheless, that our consolidated financial position, cash flows or results of operations could be affected by the resolution of one or more of these contingencies.

Refer to the discussion set forth in Item 1 under the caption *Risk Factors We may be unable to adequately protect our proprietary rights;* *Risk Factors We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future* and *Risk Factors We have been, are and may in the future be involved in litigation that could result in significant costs to us.*

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the Company's security holders during the fourth quarter of the fiscal year ended July 31, 2005.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Intellisync's common stock began trading on the Nasdaq National Market on December 5, 1996, under the symbol PUMA. We changed our name to Intellisync Corporation on February 17, 2004, at which time our ticker symbol changed to SYNC. The following table sets forth the high and low closing prices for our common stock as reported on the Nasdaq National Market from August 1, 2003, through July 31, 2005.

	High	Low
<b><i>Fiscal 2004</i></b>		
First fiscal quarter (August 1, 2003 to October 31, 2003)	\$ 6.99	\$ 3.05
Second fiscal quarter (November 1, 2003 to January 31, 2004)	\$ 7.51	\$ 3.98
Third fiscal quarter (February 1, 2004 to April 30, 2004)	\$ 4.65	\$ 2.26
Fourth fiscal quarter (May 1, 2004 to July 31, 2004)	\$ 3.35	\$ 1.64
<b><i>Fiscal 2005</i></b>		
First fiscal quarter (August 1, 2004 to October 31, 2004)	\$ 3.05	\$ 1.75
Second fiscal quarter (November 1, 2004 to January 31, 2005)	\$ 2.31	\$ 1.77
Third fiscal quarter (February 1, 2005 to April 30, 2005)	\$ 3.66	\$ 2.06
Fourth fiscal quarter (May 1, 2005 to July 31, 2005)	\$ 3.07	\$ 2.43

As of October 10, 2005, there were approximately 433 stockholders of record of our common stock and 67,255,129 shares of common stock outstanding. Additionally, on such date the last reported closing sale price of our common stock, as reported by the Nasdaq National Market, was \$4.27 per share.

We have never paid dividends on our capital stock. We currently intend to retain any future earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

The disclosure required by Item 201(d) of Regulation S-K is incorporated by reference to the definitive proxy statement for our 2005 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A no later than 120 days after the end of the fiscal year covered by this form under the caption *Equity Compensation Plan Information*.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data are derived from our consolidated financial statements. Historical results should not be taken as indicative of the results that may be expected for any future period. This summary of our consolidated financial information for fiscal years 2001 to 2005 should be read along with our audited consolidated financial statements contained in this Annual Report on Form 10-K. The summarized financial information, other than the statements of operations data for fiscal 2001 and 2002 and the balance sheets data at July 31, 2001, 2002 and 2003, was taken from these financial statements.

This summary of consolidated financial statements includes the accounts of Intellisync Corporation and our wholly owned subsidiaries.

In addition to the effect of acquisitions, there were a number of other items that affected the comparability of this information:

- The results of operations for fiscal year 2005 include the effects of charges recorded during the fourth quarter of fiscal 2005, including \$505,000 for the settlement of NCR Corporation's patent infringement claim, which is more fully described in note 9 to the consolidated financial statements set forth under Part IV, Item 15 of this Annual Report on Form 10-K., and various legal costs. The results of operations for fiscal 2005 also include \$220,000 for purchased in-process research and development in connection with the acquisition of PDAapps, Inc. We also recorded a \$25,000 recovery of non-cash stock compensation during fiscal 2005 in connection with certain stock options accounted for using variable accounting.
- The results of operations for fiscal year 2004 include the effect of charges including \$600,000 for facilities cost adjustment relating to restructuring actions implemented in a prior year, \$253,000 for severance costs, and \$76,000 for operating expenses relating to a potential acquisition that was subsequently abandoned. We recorded a charge of \$3,667,000 for purchased in-process research and development in connection with the acquisitions of Spontaneous Technology, Inc., and acquisition of Synchronologic, Inc., and Identity Systems (formerly Search Software America Pty. Ltd., or SSA). An additional charge of \$745,000 was incurred in connection with certain stock options accounted for using variable accounting. A net gain of \$1,576,000 which resulted from the settlement of patent litigation with Extended Systems was also recorded in fiscal 2004.
- The results of operations for fiscal year 2003 include the effect of charges including \$379,000 for operating expenses relating to a potential acquisition that was subsequently abandoned, \$257,000 for severance and separation costs, and \$159,000 for facilities cost adjustment relating to restructuring actions implemented in the prior year. We also recorded a \$60,000 recovery of lease payments deemed uncollectible in the prior year. Additional charges incurred in fiscal 2003 include an other-than-temporary impairment of investments of \$2,394,000, non-cash stock compensation expense of \$1,585,000 in connection with certain stock options and restricted stock accounted for using variable accounting and \$157,000 in connection with the options granted by NetMind Technologies, Inc. prior to our acquisition of NetMind, and purchased in-process research and development of \$406,000 in connection with our acquisition of Starfish Software, Inc.
- The results of operations for fiscal year 2002 include the effect of charges including \$5,595,000 for severance and separation costs, facilities consolidation and assets held for disposal associated with the cost reduction program implemented during the third and fourth quarters of fiscal 2002 and \$5,249,000 for write-downs of impaired intangibles and assets related to our terminated online operations. We recorded a charge for impairment of certain excess software development tools, a provision for rent reimbursement deemed uncollectible and an other-than-temporary impairment of investments of approximately \$580,000, \$330,000 and \$380,000, respectively.  
Non-cash stock



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compensation expense of \$367,000 was also recorded in connection with the options granted by NetMind prior to our acquisition of NetMind.

- The results of operations for fiscal year 2001 include the effect of a \$1,417,000 charge for severance costs, facilities consolidation and assets held for disposal associated with the cost reduction programs implemented in the third and fourth quarters of fiscal 2001. Additional charges were incurred for write-downs of impaired intangibles and other assets of \$10,614,000 and direct investments of \$1,180,000, and non-cash stock compensation expense of \$1,058,000 in connection with the options granted by NetMind prior to our acquisition of NetMind and the stock option regrant program implemented in July 2001.

*Condensed Consolidated Statements of Operations Data* (in thousands, except per common share data)

	Year Ended July 31,				
	2005	2004	2003	2002	2001
Revenue	\$ 59,498	\$ 42,308	\$ 24,860	\$ 22,940	\$ 38,202
Net loss	\$ (13,414 )	\$ (9,455 )	\$ (7,736 )	\$ (34,518 )	\$ (41,818 )
Basic and diluted net loss per common share	\$ (0.20 )	\$ (0.16 )	\$ (0.17 )	\$ (0.77 )	\$ (0.96 )

*Condensed Consolidated Balance Sheets Data* (in thousands)

	July 31,				
	2005	2004	2003	2002	2001
Cash, cash equivalents and short-term investments	\$ 38,852	\$ 53,648	\$ 27,159	\$ 34,431	\$ 48,908
Working capital	\$ 38,068	\$ 51,848	\$ 25,173	\$ 28,099	\$ 44,489
Total assets	\$ 160,793	\$ 170,354	\$ 41,167	\$ 47,312	\$ 78,934
Long-term obligations	\$ 60,880	\$ 61,229	\$ 921	\$ 1,991	\$
Total stockholders' equity	\$ 82,211	\$ 94,391	\$ 31,796	\$ 34,884	\$ 68,192

*Summary Condensed Quarterly Data* (unaudited, in thousands, except per common share data)

	Three Months Ended							
	July 31, 2005	April 30, 2005	Jan 31, 2005	Oct 31, 2004	July 31, 2004	April 30, 2004	Jan 31, 2004	Oct 31, 2003
Revenue	\$ 15,703	\$ 15,237	\$ 16,256	\$ 12,302	\$ 13,282	\$ 11,007	\$ 10,003	\$ 8,016
Cost of revenue	3,833	3,723	3,693	3,497	3,490	3,227	2,197	1,787
Gross profit	11,870	11,514	12,563	8,805	9,792	7,780	7,806	6,229
Operating expenses	15,723	15,315	13,104	12,013	11,148	11,396	11,148	8,509
Operating loss	\$ (3,853 )	\$ (3,801 )	\$ (541 )	\$ (3,208 )	\$ (1,356 )	\$ (3,616 )	\$ (3,342 )	\$ (2,280 )
Net loss	\$ (4,573 )	\$ (4,361 )	\$ (973 )	\$ (3,506 )	\$ (1,758 )	\$ (2,184 )	\$ (3,252 )	\$ (2,261 )
Basic and diluted net loss per common share	\$ (0.07 )	\$ (0.07 )	\$ (0.01 )	\$ (0.05 )	\$ (0.03 )	\$ (0.03 )	\$ (0.06 )	\$ (0.05 )
Shares used in computing basic and diluted net loss per common share	66,635	66,523	65,076	64,418	64,070	63,859	54,475	48,266

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion includes a number of forward-looking statements. You should read this section in conjunction with the cautionary language applicable to such forward-looking statements described above in Item 1 found in Part I of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to release publicly any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

**Business Overview**

We develop, market and support desktop, enterprise and mobile carrier-class software that enables consumers, business executives and information technology professionals to extend the capabilities of enterprise groupware and vertical applications, data-enabled mobile devices and other personal communication platforms. The primary software applications we developed and marketed include push-email, data synchronization and systems management software. Our software also enables organizations to search, find, match and synchronize identity data within their computer systems and network databases.

We have organized our operations into a single operating segment encompassing the development, marketing and support of software and services that provide synchronization, wireless messaging, mobile application development, database application/device management, real-time remote information access, secure VPN, and identity synchronization capabilities.

We license our software products directly to corporations, mobile carriers, original equipment manufacturers, or OEMs, and business development organizations worldwide. In addition, we sell our retail products through several distribution channels both in the United States and internationally, including major distributors, resellers, computer dealers, retailers and mail-order companies. Internationally, we are represented by over 150 distributors, resellers and retailers in North America, Europe, the Asia-Pacific region, South America and Africa.

One component of our business strategy is to enhance stockholder value through the acquisition of companies and technologies that we can leverage to improve our strategic market position and growth potential in both emerging and established technologies. Our recent acquisitions, together with our internal development efforts, have been aimed at expanding our focus from cabled synchronization to synchronization for wireless handhelds, smartphones, laptops and tablets, where a number of industry analysts, such as International Data Corporation, or IDC, predict future growth. For details on our recent acquisitions, refer to the discussion under the caption *Acquisitions* set forth under Liquidity and Capital Resources below.

We intend to capitalize on the continued growth in demand for wireless services and the related infrastructure required, including hosting, application and other related services, to support that growth. As such, maintaining and cultivating relationships with mobile carriers is currently one of the critical focus areas of our research and development and sales and marketing groups. We believe that wireless services will continue to be one of the fastest growing segments of the telecommunications industry and that mobile carriers will be under increasing competitive pressure. As a result, we believe there will be significant opportunities to provide mobile carriers with services that enable them to focus internal resources on their core business activities while increasing revenues, improving service quality and reducing costs.

We expect to continue to implement our business development strategy in fiscal 2006. To increase market share, we may also attempt to acquire or seek alliances with key competitors and other companies that may have important products and synergies with our existing operations and products.

### Estimates, Assumptions and Critical Accounting Policies

The following discussion and analysis of financial condition and results of operations are based on our consolidated financial statements and notes thereto set forth in Part IV of this Annual Report on Form 10-K. Our consolidated financial statements are prepared in accordance with generally accepted accounting principles, or GAAP, in the United States of America. These accounting principles require us to make certain estimates, judgments and assumptions, which we review with our audit committee. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon various factors and information available to us at the time that these estimates, judgments and assumptions are made. These factors and information may include, but are not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third party professionals. The estimates, judgments and assumptions we make can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

We use estimates in accounting for, among other things, various revenue contracts, returns, recoverability of long-lived assets and investments, in-process research and development, restructuring accruals, contingencies, allowances for uncollectible receivables, depreciation and amortization and valuation of income taxes. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- *License and services revenue recognition.*

Revenue from license fees is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant Company obligations with regard to implementation or integration exist, the fee is fixed or determinable and collectibility is probable. Arrangements for which the fees are not deemed probable for collection are recognized upon cash collection. If we were to assess the collectibility of fees differently, the timing and amount of our revenue recognition might differ substantially from previously estimated or reported.

Services revenue primarily comprises revenue from consulting fees, maintenance contracts and training. Services revenue from consulting and training is recognized as the service is performed. Maintenance contracts include the right to unspecified upgrades and ongoing support. Maintenance revenue is deferred and recognized ratably as services are provided over the maintenance period. If we were to allocate more or less value to the unspecified upgrades and ongoing support, the timing of our revenue recognition might differ substantially from that previously reported.

For contracts with multiple elements, and for which vendor-specific objective evidence of fair value for the undelivered elements exists, revenue is recognized for the delivered elements based upon the residual contract value as prescribed by the American Institute of Certified Public Accountants in Statement of Position (SOP) No. 98-9. We have accumulated relevant information from contracts to use in determining the availability of vendor-specific objective evidence and believe that such information complies with the criteria established in SOP No. 97-2, *Software Revenue Recognition* which provides guidance on generally accepted accounting principles for recognizing revenue on software transactions. If we were to allocate the respective fair values of the aforementioned elements differently, the timing of our revenue recognition might differ substantially from that previously estimated or reported.

License and services revenue associated with contracts that involve significant implementation of customization of services, which are essential to the functionality of the software, is recognized over the period of each engagement, primarily using the percentage-of-completion method.  
Costs

incurred are generally used as the measure of progress towards completion as prescribed by SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Product-Type Contracts*. Revenue for these arrangements is classified as license revenue and services revenue based upon estimates of fair value of each element, and the revenue is recognized based on the percentage-of-completion ratio for the arrangement. Recognized revenue is subject to revisions as the engagement progresses to completion. Revisions in estimates or estimated losses on engagements are made in the period in which the loss becomes probable and can be reasonably estimated. Considerable judgment, such as the scope of work and reliance on the customer or other vendors to fulfill some tasks, may be required in determining estimates to complete an engagement. If we were to make different judgments or utilize different estimates of the total amount of work required to complete the engagement, the timing of our revenue recognition from period to period, as well as the related margins, might differ substantially from that previously estimated or reported. We consider a project completed at the go-live date. When we sell additional licenses, we recognize revenue after the go-live date if the products or seats have been delivered and no remaining obligations exist.

We license rights to use our intellectual property portfolio, whereby licensees, particularly OEMs, typically pay a non-refundable license fee in one or more installments and on-going royalties based on their sales of products incorporating our intellectual property. Revenue from OEMs under minimum guaranteed royalty arrangements, which are not subject to future obligations, is recognized when such royalties are earned and become payable. Royalty revenue is recognized as earned when reasonable estimates of such amounts can be made. Royalty revenue that is subject to future obligations is recognized when such obligations are fulfilled. Royalty revenue that exceeds minimum guarantees is recognized in the period earned. If we were to assess the collectibility of royalties differently or make different judgments or utilize different estimates, the timing and amount of our revenue recognition might differ substantially from previously estimated or reported.

- *Channel inventory and product returns.*

The primary sales channel into which we sell our retail products is a network of distributors and value-added resellers in North America, Europe, Asia Pacific, South America and Africa. Agreements with our distributors and resellers contain specific product return privileges for stock rotation and obsolete products that are generally limited to contractual amounts. Reserves for estimated future returns are provided for upon revenue recognition. Product returns are recorded as a reduction of revenues. Accordingly, we have established a product returns reserve composed of 100% of product inventories held at our distribution partners, as well as an estimated amount for returns from customers of our distributors and other resellers as a result of stock rotation and obsolete products, among others.

We evaluate our product returns reserve on a quarterly basis. In estimating our product returns reserve, we evaluate the following factors:

- our demand forecast by product in each of our principal geographic markets, which is affected by our product release schedule, seasonal trends, and analyses developed by our internal sales and marketing group;
- historical product returns and inventory levels on a product by product basis;
- current inventory levels and sell through data on a product by product basis as reported to us by our major distributors worldwide on a monthly basis;
- risk associated with recognizing revenue on individual customers, based on facts and circumstances; and
- general economic conditions.



In general, we would expect product returns to increase following the announcement of new or upgraded versions of our products or in anticipation of such product announcements, as our distributors and resellers seek to reduce their inventory levels of the prior version of a product in advance of receiving the new version. Similarly, we would expect that product inventory held by our distributors and resellers would increase following the successful introduction of new or upgraded products, as these resellers stock the new version in anticipation of demand. In assessing the appropriateness of product inventory levels held by our resellers and the impact on potential product returns, we may limit sales to our distributors and resellers in order to maintain inventory levels deemed by management to be appropriate. We generally estimate and provide product returns reserve based on anticipated level of returns and the criteria noted above. Accordingly, actual product returns may differ from our estimates and may have a material adverse effect on our revenues and consolidated results of operations in future periods due to factors including, but not limited to, market conditions and product release cycles.

- *Provision for doubtful accounts.*

Our provision for doubtful accounts relates to customer accounts receivable. The provision for doubtful accounts is an estimate prepared by management based on identification of the collectibility of specific accounts and the overall condition of the receivable portfolios. We specifically analyze customer receivables, as well as analyze the aging of our accounts receivable, historical bad debts, customer credits, customer concentrations, the financial condition of the customers and their credit-worthiness, changes in payment terms, current economic trends, our historical write-off experience and other assumptions, when evaluating the adequacy of the provision for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Likewise, should we determine that we would be able to realize more of our receivables in the future than previously estimated, an adjustment to the allowance would increase income in the period such determination was made. The provision for doubtful accounts is reviewed on a quarterly basis and adjustments are recorded as deemed necessary.

- *Valuation of goodwill, other intangibles, investments and other long-lived assets.*

We have accumulated over the years a significant amount of goodwill, other intangible assets, long-term and other long-lived assets as a result of our investments and acquisitions.

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the identifiable net assets acquired and is tested for impairment at July 31 of each year and written down only when impaired. Identifiable intangible assets result from the application of the purchase method of accounting for our acquisitions. Our identifiable intangible assets as of July 31, 2005, were composed of our unamortized developed and core technology, patents, trademark, customer base, covenant not-to-compete, customer contracts and acquired workforce (not accounted as a business combination). Developed and core technology, patents and customer base are amortized over the period of benefit, generally three to seven years. Trademarks are amortized over the period of benefit of two or three years. Covenants not-to-compete, customer contracts and acquired workforce are amortized over the period of benefit, ranging from nine months to three years.

The ongoing evaluation for impairment of certain identifiable intangibles, investments and long-lived assets requires significant management estimation and judgment. We evaluate the carrying value of these assets for impairment, when events and circumstances indicate that the carrying amount of the underlying asset may not be recoverable as defined in the respective literature. In addition, SFAS No. 142, *Goodwill and Other Intangible Assets*, requires us to test goodwill annually using a two-step process. The first step is to identify a potential impairment. The second

step measures the amount of the impairment loss, if any. Intangible assets with indefinite lives are tested for impairment using a one-step process that compares the fair value to the carrying amount of the asset. Changes in the manner of use of the acquired assets, changes in overall business strategy, negative industry or economic trends, and decline in stock price and market capitalization may trigger an impairment review for certain intangibles. Poor operating results of underlying investments or adverse changes in market conditions may result in losses or an inability to recover the carrying value of investments. Changes in market value of the assets, physical changes and continuing operating or cash-flow losses associated with assets used to generate revenue may suggest problems of recoverability for certain long-lived assets. In assessing potential impairment, we also make significant estimates and assumptions regarding the discounted future cash flows of our reporting units to determine each unit's fair value. Such estimates include, but are not limited to, projected future operating results, working capital ratios, cash flow, terminal values, market discount rates and tax rates. Whenever the evaluation demonstrates that the carrying amount of an intangible, investment or any other long-lived asset is not recoverable, an impairment charge may be required.

As of July 31, 2005, our total goodwill amounted to \$68,474,000. The annual impairment review for goodwill was completed on July 31, 2005, and did not identify any impairment. As of July 31, 2005, other intangibles amounted to \$25,946,000, net of accumulated amortization. We expect to amortize approximately \$8,616,000, \$7,980,000, \$4,404,000, \$2,190,000 and \$2,756,000 of our other intangibles in fiscal 2006, 2007, 2008, 2009 and thereafter, respectively, based on our acquisitions completed as of July 31, 2005. To the extent we do not generate sufficient cash flows to recover the net amount of our investment in goodwill, intangibles and other long-lived assets recorded, the investment could be considered impaired and subject to earlier write-off.

- *In-Process Research and Development.*

We value tangible and intangible assets acquired through our business acquisitions, including in-process research and development, or IPR&D, at fair value. We determine IPR&D through established valuation techniques for various projects for the development of new products and technologies and expenses IPR&D when technical feasibility is not reached. The value of IPR&D is determined using the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project is analyzed and estimates and judgments are made to determine the technological innovations included; the utilization of core technology; the complexity, cost and time to complete development; the appropriate discount rates; any alternative future use or current technological feasibility; and the stage of completion. During fiscal 2005, 2004 and 2003, we expensed approximately \$220,000, \$3,667,000 and \$406,000, respectively, in IPR&D charges primarily related to the various acquisitions we had because the technological feasibility of certain products under development had not been established and no future alternative uses existed. If we acquire other companies with IPR&D in the future, we will value the IPR&D through established valuation techniques and will incur future IPR&D charges if those products under development have not reached technical feasibility.

- *Restructuring accruals.*

In recent years, we implemented several cost-reduction plans as part of our continued effort to streamline our operations to properly size ongoing operating expenses. These plans resulted in restructuring charges related to, among others, the consolidation of excess facilities. These charges relate to facilities and portions of facilities we no longer utilize and either seek to terminate early or sublease. Lease termination costs for the abandoned facilities were estimated for the remaining lease obligations and brokerage fees offset by estimated sublease income. Estimates related to

sublease costs and income are based on assumptions regarding the period required to locate and contract with suitable sub-lessees and sublease rates which can be achieved using market trend information analyses provided by a commercial real estate brokerage retained by us. Each reporting period we review these estimates and to the extent that these assumptions change due to continued negotiations with landlords or changes in the market, the ultimate restructuring expenses for these abandoned facilities could vary by material amounts.

- *Loss contingencies.*

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of the incurrence of a liability as well as our ability to estimate reasonably the amount of loss in determining loss contingencies. An estimated loss contingency is accrued in accordance with SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires that we record an estimated loss from a loss contingency when information available prior to the issuance of our financial statements indicates that it is probable that a liability has been incurred on the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal matters requires us to use our judgment. While we believe that our accruals for such matters are adequate, if the actual loss from a loss contingency is significantly different than the estimated loss, our results of operations may be overstated or understated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted.

- *Income Taxes*

As part of the process of preparing consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. To the extent that we establish or increase a valuation allowance in a period, the change is included as an expense within the tax provision in the consolidated statement of income. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. Based on our estimates concerning future results of operation, we have recorded a valuation allowance for net operating losses and for foreign tax credits. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations. In addition, the estimation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in all the jurisdictions in which we do business. We recognize liabilities for anticipated tax audit issues based on our estimate of the possibility that additional taxes will be due. If we ultimately determine that payment of additional amounts is unnecessary, we reverse the associated liabilities and recognize a tax benefit in the period in which this determination is made. If we determine that our recorded tax liability is less than we expect the ultimate assessment to be, we record an additional charge in our provision for taxes in the period in which this determination is made.

**Results of Operations**

The following table sets forth items included in the consolidated statements of operations (Part IV of this Annual Report on Form 10-K) as a percentage of revenue for the periods indicated.

	Years Ended July 31,					
	2005		2004		2003	
Revenue:						
License	66.0	%	66.9	%	77.1	%
Services	34.0		33.1		22.9	
Total revenue	100.0		100.0		100.0	
Cost of revenue:						
Cost of license revenue	2.7		4.9		4.8	
Cost of services revenue	14.2		14.0		11.7	
Amortization of developed and core technology	7.9		6.4		2.5	
Total cost of revenue	24.8		25.3		19.0	
Gross profit	75.2		74.7		81.0	
Operating expenses:						
Research and development	24.5		27.1		29.7	
Sales and marketing	46.3		39.1		46.1	
General and administrative	15.2		18.0		23.3	
In-process research and development	0.4		8.7		1.6	
Amortization of other intangible assets	7.1		4.6		0.4	
Restructuring and other charges	0.9		2.2		3.2	
Total operating expenses	94.4		99.7		104.3	
Operating loss	(19.2)	)	(25.0)	)	(23.3)	)
Other income (expense)						
Interest income	1.8		1.5		3.3	
Interest expense	(2.3)	)	(0.6)	)	(0.0)	)
Litigation settlement gain, net			3.7			
Other, net	(1.5)	)	(0.8)	)	(0.3)	)
Other-than-temporary impairment of investments					(9.6)	)
Total other income (expense)	(2.0)	)	3.8		(6.6)	)
Loss before income taxes	(21.2)	)	(21.2)	)	(29.9)	)
Provision for income taxes	(1.3)	)	(1.1)	)	(1.2)	)
Net loss	(22.5)	)%	(22.3)	)%	(31.1)	)%

**Fiscal Year Ended July 31, 2005 as Compared to Fiscal Year Ended July 31, 2004***Revenue*

	Year Ended July 31,		
	2005	Percent Change	2004
Total revenue	\$ 59,498	40.6 %	\$ 42,308

We derive revenue from two primary sources: software licenses and fees for services. Fiscal 2005 reflected record revenue for Intellisync primarily due from revenue contributions of Synchrologic and Identity Systems product sales, both of which we acquired during fiscal 2004. The revenue increase was also brought about by new revenue streams as we launched new wireless products and ramped up our wireless messaging solution with the global wireless market, as well as by an increase in our sales and marketing efforts, both domestically and internationally.



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While the market for smartphones and other wireless mobile devices has grown recently, the market for wired or traditional personal digital assistants, or PDAs, has continued to face challenges. The overall decline in traditional PDA sales has had a direct impact on sales of our Intellisync products through the consumer and online channels, where sales of our synchronization software typically occur at the same time a PDA is purchased, or shortly thereafter. Due to this decline, our retail revenue, which consists of sales to distributors and direct sales to end-users, decreased during fiscal 2005.

Our acquisitions of Spontaneous Technology, Synchronologic, Identity Systems, and, recently, Tourmaline and PDAapps have provided and are expected to further provide us with access to new technology capabilities, potential access to new markets and customers and other revenue-generation opportunities. We expect revenue and operational benefits over time through synergies in technology, product development and operations.

- *License Revenue*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
License revenue	\$ 39,244		38.7 %	\$ 28,292
As percentage of total revenue	66.0	%		66.9 %

License revenue is earned from the sale and use of software products (including our technology licensing components) and royalty agreements with original equipment manufacturers, or OEMs. The increase in license revenue in absolute dollars for fiscal 2005 as compared with that for fiscal 2004 reflected an increase in revenue of approximately \$10,000,000 from licensing to our enterprise customers and \$3,800,000 from our mobile carrier customers. A significant portion of the increase in enterprise revenue was contributed by sales of Intellisync Mobile Suite and other products from Synchronologic (acquired in December 2003) and products from Identity Systems (acquired in March 2004). The increase in license revenue was partially offset by a \$3,500,000 decrease in our retail revenue as a result of overall decline in sales of wired or traditional PDAs. We expect that the decreasing revenue from PDAs will continue as more consumers move to smartphones and other wireless mobile devices.

- *Services revenue*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
Services revenue	\$ 20,254		44.5 %	\$ 14,016
As percentage of total revenue	34.0	%		33.1 %

Service revenue is derived from fees for services, including fixed-price and time-and-materials professional services arrangements, amortization of maintenance contract programs and hosting fees. The increase in service revenue for fiscal 2005 as compared with that for fiscal 2004 resulted from a total increase of approximately \$9,000,000 brought about by an increase in amortization of our maintenance contract programs relating to the increase in license revenue, as well as revenue from our hosting services. This increase was offset by a decrease of approximately \$2,200,000 in professional service revenue associated with our technology licensing partners.

In any period, service revenue from time and materials contracts is dependent, among other things, on license transactions closed during the current and preceding quarters and customer decisions regarding implementations of licensed software.

*Revenue by Customer Group*

	Year Ended July 31,		2004
	2005	Percent Change	
	(In thousands, except percentage)		
Enterprise and retail	\$ 33,800	56.7 %	\$ 21,564
As percentage of total revenue	56.8	%	51.0 %
OEMs	\$ 16,028	(18.4 )%	\$ 19,631
As percentage of total revenue	27.0	%	46.4 %
Mobile carriers	\$ 9,670	768.8 %	\$ 1,113
As percentage of total revenue	16.2	%	2.6 %
Total revenue	\$ 59,498		\$ 42,308

Our enterprise and retail products revenue includes sales to retail distribution channels, as well as direct sales of our personal and server products licensed to corporations for internal use. The increase in revenue from enterprise and retail for fiscal 2005 as compared with that for fiscal 2004 resulted from the full-year revenue from products of Synchrologic and Identity Systems, both acquired during fiscal 2004. Revenue from such products increased by approximately \$13,500,000. The increase in revenue from enterprise and retail for fiscal 2005 was also due to approximately \$2,100,000 in revenue from amortization of support and maintenance based on a higher license revenue base. This increase was offset by a decrease of approximately \$3,500,000 in revenue from retail sales of our Intellisync software. Enterprise sales frequently involve large up-front license fees, which can result in lengthy sales cycles and uncertainties as to the timing of sales driven by customers' budgetary processes. As a result, we generally have less visibility into future enterprise sales than is typically the case with OEMs in our royalty-based technology licensing business. In addition, while enterprise sales generally result in ongoing maintenance revenue and may lead to follow-on purchases or upgrades, we are typically dependent on sales to new customers for a significant portion of our enterprise revenue in a given quarter.

Fiscal 2005 reflected a full-year revenue from our mobile carrier business. The revenue increase from mobile carriers also reflected increased business volume from existing customers and increased number of new contracts signed during the fiscal year.

The growth in revenue from enterprise and retail and mobile carriers was partially offset by a decline in royalty revenue from our OEM customers. This decrease was primarily a result of declining demand for the products of our OEM customers.

*International Revenue*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
International revenue	\$ 18,409		31.6 %	\$ 13,992
As percentage of total revenue	30.9	%		33.1 %

International revenue continues to represent a significant portion of our revenue. The year-over-year increase in our international revenues accounted for 26% of our total revenue increase for fiscal 2005. Our international revenue growth, in absolute dollars, was a result of a number of factors including an increase in the number of our international technology licensing partners, particularly in Europe; the full-year revenue effect of Identity Systems during fiscal 2005; an increase in the number of sales people worldwide; and the effect of foreign exchange fluctuation. Our sales of Intellisync Mobile Suite particularly in United Kingdom and Italy were stronger than usual for the first half of fiscal 2005. This increase in international revenue was offset by a decrease in revenue from Japan primarily from the delay in closing of certain

contracts associated with our new products. The slight decrease in international revenue as a percentage of total revenue for fiscal 2005 was primarily due to increased revenue from our newer offerings in the United States. We expect that Synchrologic, Identity Systems and our other acquisitions will further strengthen our revenue, as well as our presence in Europe and Asia-Pacific. We believe, however, that international revenue will fluctuate on a quarter to quarter basis as we periodically enter into new agreements for professional services and new international partner contracts for technology licensing. International revenue may be subject to certain risks not normally encountered in operations in the United States, including exposure to tariffs, various trade regulations, fluctuations in currency exchange rates, as well as international software piracy as described more fully in *Factors That May Affect Future Operating Results* set forth below. We believe that continued growth will require further expansion in international markets. We have utilized and will likely continue to utilize substantial resources both to expand and establish international operations in the future.

*Top Customers*

No customers accounted for more than 10% of our total revenue during fiscal 2005 and 2004.

*Cost of Revenue*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
Total cost of revenue	\$ 14,745		37.8 %	\$ 10,701
As percentage of total revenue	24.8	%		25.3 %

Cost of revenue consists of license costs, service costs and the amortization of developed and core technology. License costs comprise product-packaging expenses such as product media and duplication, manuals, packing supplies, and shipping costs, as well as third party royalty fees. Service costs include the following types of costs: personnel-related expenses such as salaries and other related costs associated with work performed under professional service contracts and non-recurring engineering agreements; post-sales customer support costs and hosting costs associated with our technology licensing partners and end users. Hosting costs include expenses related to bandwidth for hosting, tape backup, security and storage, third-party fees and internal personnel costs associated with logistics and operational support of the hosting services. Service costs can be expected to vary significantly from period to period depending on the mix of services we provide.

In general, license revenue costs represent a smaller percentage of license revenue when compared with services revenue costs as a percentage of services revenue; this is due to the high cost structure of services revenue. Additionally, license costs tend to be variable based on license revenue volumes, whereas service costs tend to be fixed within certain services revenue volume ranges. We would expect that an increase in services revenue as a percentage of our total revenue would generate lower overall gross margins as a percentage of total revenue. Also, given the high level of fixed costs associated with the professional services group and our hosting operations, our inability to generate revenue sufficient to absorb these fixed costs could lead to low or negative service gross margins.

- Cost of License Revenue*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
Cost of license revenue	\$ 1,585		(23.0) %	\$ 2,059
As percentage of license revenue	4.0	%		7.3 %



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The decrease in cost of license revenue in fiscal 2005 was attributed to lower packaging and distribution costs due to decrease in overall revenue from retail products.

- *Cost of Services Revenue*

	Year Ended July 31,				
	2005		Percent Change	2004	
(In thousands, except percentage)					
Cost of services revenue	\$	8,478	42.5 %	\$	5,949
As percentage of services revenue		41.9 %			42.4 %

The increase in cost of services revenue in absolute dollars reflected the effect of planned increases of \$1,100,000 in mobile hosting and \$800,000 in post-sales support infrastructure and \$600,000 in other related expenses. In future periods, cost of revenue may further fluctuate from quarter to quarter due to potential changes in the infrastructure and other requirements of our hosting operations to meet carriers demand. These changes, which may be costly, are difficult to forecast. In addition, our cost of revenue is primarily driven by our expectation for different margin characteristics within and between license and service revenue as well as the expected mix between products and channels.

- *Amortization of Developed and Core Technology*

	Year Ended July 31,				
	2005		Percent Change	2004	
(In thousands, except percentage)					
Amortization of developed and core technology	\$	4,683	73.9 %	\$	2,693
As percentage of total revenue		7.9 %			6.4 %

Developed and core technology amounted to \$14,552,000 and \$15,867,000, net of accumulated amortization, as of July 31, 2005 and 2004, respectively. We continue to amortize other intangible assets, review such assets for impairment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, reassess their useful lives and make any necessary adjustments.

Amortization of purchased technology is computed over the estimated useful lives of the respective assets, generally three to seven years. The increase in the amortization of developed and core technology for fiscal 2005 were primarily due to the impact of developed and core technology acquired from Spontaneous Technology, Synchrologic and Identity Systems during fiscal 2004 and Tourmaline and PDAapps during fiscal 2005. Based on acquisitions completed as of July 31, 2005, we expect the future amortization expense of developed and core technology is as follows (in thousands):

Fiscal year ending July 31,	
2006	\$ 4,992
2007	4,872
2008	2,568
2009	1,195
2010	733
Thereafter	192
	\$ 14,552

We expect that we may acquire additional developed and core technology in connection with any acquisitions we may complete in the future. As a result, we may further increase our amortization expense of developed and core technology.



*Research and Development*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
Research and development	\$ 14,604		27.4 %	\$ 11,467
As percentage of total revenue	24.5	%		27.1 %

Research and development expenses consist primarily of salaries and other related costs for research and development personnel, quality assurance personnel, product localization, fees to outside contractors and the cost of facilities and depreciation of capital equipment. We invest in research and development both for new products and to provide continuing enhancements to existing products. Our engineering group is currently focused on developing new functionality for wireless handhelds, smartphones, laptops and tablets, on extending our core synchronization technology to increase scalability and extensibility, and on supporting next generation wireless technology and device platforms. The increase in research and development spending in absolute dollars was due to the added headcount due to the acquisition of approximately 25 engineers from acquisitions of Tourmaline and PDAapps during the second half of fiscal 2005 and 71 additional engineers from the acquisitions of Spontaneous Technology, Synchrologic and Identity Systems during the first three quarters of fiscal 2004. The decrease in research and development expense as a percentage of revenue was due to the overall increase in total revenue. We expect that research and development expenses will increase in absolute dollars as we continue to increase associated costs to pursue additional new product development opportunities, but such expenses will fluctuate as a percentage of revenue due to changes in sales volume.

*Sales and Marketing*

	Year Ended July 31,			
	2005		Percent Change	2004
	(In thousands, except percentage)			
Sales and marketing	\$ 27,551		66.6 %	\$ 16,540
As percentage of total revenue	46.3	%		39.1 %

Sales and marketing expenses consist primarily of salaries, commissions, promotional expenses (marketing and sales literature and presentations), marketing programs (trade shows, public relations) and other costs relating to sales and marketing employees. Sales and marketing expenses also include costs relating to technical support personnel associated with pre-sales activities such as building brand awareness, performing product and technical presentations and answering customers product and service inquiries. Sales and marketing expenses increased year-over-year due to an increase in number of sales people worldwide as we increased our selling efforts in the Mobile Carrier sales channel. We also added 22 new sales and marketing employees from the acquisitions of Synchrologic and 11 sales and marketing personnel from Identity Systems. The added personnel costs resulted in an increase of approximately \$6,094,000 in fiscal 2005.

The increase in sales and marketing expenses was also due to an increase in marketing programs and other related activities of approximately \$3,627,000 to support increased revenue activities driven by our recent acquisitions and establishing strategic relationships with our existing and prospective enterprise customers. Increased sales and marketing-related travel increased by approximately \$1,290,000. We intend to increase awareness and market presence of our existing and new products, services or technology over time, which may require us to substantially increase the amount we spend on sales and marketing in future periods. We expect that our sales and marketing expenses will continue to increase in terms of absolute dollars as we increase and expand our sales and marketing efforts worldwide.

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General and Administrative

	Year Ended July 31,			
	2005	Percent Change		2004
	(In thousands, except percentage)			
General and administrative	\$ 9,036	18.3 %		\$ 7,639
As percentage of total revenue	15.2	%		18.0 %

General and administrative expenses consist primarily of salaries and other costs relating to administrative, executive and financial personnel and outside professional fees. The increase in general and administrative spending for fiscal 2005 was due to an increase in audit and consulting fees of approximately \$1,200,000 which were related to complying with the new reporting requirements under The Sarbanes-Oxley Act of 2002, plus the cost of three additional employees and other expenses amounting to approximately \$1,761,000. This increase was partially offset by a \$675,000 reduction in non-cash variable accounting charges associated with certain outstanding stock options and a reduction of outside legal costs of \$889,000, which was due to a settlement of a patent infringement lawsuit. The decrease in general and administrative expense as a percentage of revenue for fiscal 2005 was due to the overall increase in overall revenue.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95*, that requires the recognition of compensation cost relating to share-based payment transactions in financial statements. That cost will be measured by the fair value of the equity or liability instruments issued as of the grant date, based on the estimated number of awards that are expected to vest. SFAS 123(R) covers a wide range of share-based compensation arrangements including share options, restricted shares, restricted share units performance-based awards, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Statement 123(R), as amended, is effective for our fiscal year 2006. As a result, we will be required to implement SFAS 123R in the quarter ending October 31, 2005. We are presently studying SFAS No. 123R and have not yet determined which method we will select for our adoption of SFAS No. 123R. We expect that the adoption of SFAS No. 123 will have a material impact on our annual earnings.

In-Process Research and Development

	Year Ended July 31,			
	2005	Percent Change		2004
	(In thousands, except percentage)			
In-process research and development	\$ 220	(94.0 )%		\$ 3,667
As percentage of total revenue	0.4	%		8.7 %

The purchase price of our recent acquisition of PDAapps was assigned to the fair value of the assets acquired, including the in-process research and development. As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use and , therefore, we expensed the in-process research and development of \$220,000 at the date of the acquisition.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which

discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations is normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. We assume the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. We, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from PDAapps are as follows (in thousands, except percentage):

Project names: Enhanced version of VeriChat product to feature J2ME (Java 2 Platform, Micro Edition) and IMode support, presence manager (uses phone state to dictate the status of a user so others can decide if they should send an instant messaging, or IM, or place a call), secure enterprise chat and carrier branded chat

Percent completed as of acquisition date: 30-50%

Estimated costs to complete technology at acquisition date: \$900

Risk-adjusted discount rate: 25%

First period expected revenue: 2<sup>nd</sup> quarter of calendar year 2006

The development of the above technology remains highly dependent on the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for a new product, and significant competitive threats from several companies. The nature of the efforts to develop this technology into a commercially viable product consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technology can meet market expectations, including functionality and technical requirements. Failure to bring the product to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

Subsequent to the acquisition of PDAapps, there have been no significant developments related to the current status of the acquired in-process research and development project that would result in material changes to the assumptions.

In fiscal 2004 we recorded a charge of \$3,667,000 for in-process research and development associated with the acquisitions of Spontaneous Technology, Synchronologic and Identity Systems. For more details, refer to the discussion under the caption *Fiscal Year Ended July 31, 2004 as Compared to Fiscal Year Ended July 31, 2003* set forth below.

If all the above in-process research and development projects are not successfully developed, our future revenues and profitability may be adversely affected. Failure to achieve the expected levels of revenue and net income from these products will negatively impact the return on investment expected at the time that the acquisitions were completed and may result in impairment charges. Additionally, the value of other intangible assets acquired may become impaired.

*Amortization of Other Intangible Assets*

	Year Ended July 31,								
	2005			Percent Change			2004		
	(In thousands, except percentage)								
Amortization of other intangible assets	\$	4,239		116.39	%	\$	1,959		
As percentage of total revenue		7.1	%				4.6	%	

Other intangible assets, excluding developed and core technology, amounted to \$11,394,000 and \$13,961,000, net of accumulated amortization, as of July 31, 2005 and 2004, respectively. We continue to amortize other intangible assets, review such assets for impairment under SFAS No. 144, reassess their useful lives and make any necessary adjustments.

Amortization of other intangible assets is computed over the estimated useful lives of the respective assets, generally nine months to seven years. The increase in the amortization of other intangible assets in fiscal 2005 was primarily due to the impact of acquired intangibles from Spontaneous Technology, Synchrologic, Identity Systems, Tourmaline and PDAapps. Based on acquisitions completed as of July 31, 2005, we expect the future amortization expense of other intangible assets is as follows (in thousands):

Fiscal year ending July 31,	
2006	\$ 3,624
2007	3,108
2008	1,836
2009	995
2010	705
Thereafter	1,126
	\$ 11,394

We expect that we may acquire additional intangible assets associated with any acquisitions we may complete in the future. As a result, we may further increase our amortization expense of other intangible assets.

*Restructuring and Other Charges.*

	Year Ended July 31,								
	2005			Percent Change			2004		
	(In thousands, except percentage)								
Restructuring charges:									
Severance costs	\$					\$	253		
Facilities costs							600		
Restructuring charges	\$					\$	853		
Other charges:									
Litigation settlement and related costs	\$	355				\$			
Costs relating to potential acquisitions		150					76		
Other charges	\$	505				\$	76		
Restructuring and other charges	\$	505		(45.6)	%	\$	929		
As percentage of total revenue		0.9	%				2.2	%	

- *Restructuring Charges and Accrual.* During fiscal 2004, we implemented a number of cost-reduction plans aimed at reducing costs that were not integral to our overall strategy and better aligning our expense levels with current revenue levels. These initiatives included a reduction in workforce and facilities consolidation.

During fiscal 2004, we implemented a reduction in workforce affecting 17 employees in various business functions (nine in research and development and eight in sales and marketing). The program was completed by the end of April 2004, and the associated severance costs incurred were approximately \$253,000, none of which remained unused as of July 31, 2005.

Also during fiscal 2004, as a result of vacating our remaining office space in Santa Cruz, California and the difficulties in subletting such facility because of the continuing deterioration of the real estate market in this location, we determined that additional charges were needed for adjustments in our expected future sublease rates and brokerage fees. We therefore recorded total facilities costs of \$600,000, inclusive of the costs of \$250,000 for vacating a floor of our office facility in San Jose, California.

The following table sets forth the activities in the restructuring accrual account for the periods presented (in thousands):

	Workforce Reduction	Consolidation of Excess Facilities	Total
<b>Balance at July 31, 2003</b>	\$ 1,766	\$ 1,766	\$ 1,766
Restructuring provision	253	250	503
Adjustment		350	350
Cash payments	(253)	(1,286)	(1,539)
<b>Balance at July 31, 2004</b>	\$ 1,080	\$ 1,080	\$ 1,080
Cash payments		(994)	(994)
<b>Balance at July 31, 2005</b>	\$ 86	\$ 86	\$ 86

The remaining unpaid amount as of July 31, 2005 of \$86,000 related to the net lease expense due to the consolidation of excess facilities, will be paid over the respective lease terms through June 2006 using cash from operations and is reflected accordingly in *Accrued Liabilities* in the consolidated balance sheet as of July 31, 2005.

We continually evaluate the balance of the restructuring reserve we recorded in prior periods based on the remaining estimated amounts to be paid. Differences, if any, between the estimated amounts accrued and the actual amounts paid will be reflected in operating expenses in future periods.

We believe that the above restructurings have contributed towards the improvement in our gross and operating income during fiscal 2004 and 2005.

- *Other charges.*

*Litigation settlement and related costs.* During the fourth quarter of fiscal 2005, we made a cash payment of \$600,000 for litigation settlement with NCR Corporation. This amount is amortized over the license period of certain NCR patents determined to be between January 2002 and December 2010 based on the greater of straight line amortization or in proportion to volume of the deployed licenses. As a result, approximately \$239,000 was expensed during the fourth quarter of fiscal 2005. The remaining \$361,000 was recorded as *Other Assets* in the consolidated balance sheet as of July 31, 2005. In addition, an expense of \$116,000 was recorded for the litigation related costs incurred during the fourth quarter of fiscal 2005.





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*Costs Relating To Potential Acquisitions.* During fiscal 2005 and 2004, we incurred residual costs of approximately \$150,000 and \$76,000, respectively for operating expenses, mainly legal and accounting, relating to potential acquisitions that we ceased pursuing.

*Interest Income*

	Year Ended July 31,			
	2005	Percent Change		2004
	(In thousands, except percentage)			
Interest income	\$ 1,065	71.8	%	\$ 620
As percentage of total revenue	1.8	%		1.5

Interest income represents interest earned on cash and short-term investments and realized gains on miscellaneous investments. The increase in net interest income was due to higher yield on higher cash balances of cash and investments mainly from the realized proceeds from issuance of convertible senior notes during fiscal 2004.

*Interest Expense*

	Year Ended July 31,			
	2005	Percent Change		2004
	(In thousands, except percentage)			
Interest expense	\$ (1,352 )	(443.0	)%	\$ (249 )
As percentage of total revenue	(2.3	)%		(0.6

Interest expense for fiscal 2005 reflects primarily a full-year interest charge associated with the convertible senior notes we issued in March 2004.

During fiscal 2004, we entered into two interest rate swap agreements with a financial institution on a total notional amount of \$60,000,000, whereby the Company receives fixed-rate interest of 3% in exchange for variable interest payments. The interest rate swaps expire upon the maturity of the Company's \$60,000,000, 3% convertible senior notes in March 2009, and effectively convert fixed-rate notes into variable-rate borrowings. The interest rate is reset semi-annually and is equal to the 6-month LIBOR rate less a rate spread. The total variable interest rate, approximately 2.9% at July 31, 2005, resulted in interest expense savings relative to fixed rates of approximately \$499,000 for fiscal 2005.

*Other, Net*

	Year Ended July 31,			
	2005	Percent Change		2004
	(In thousands, except percentage)			
Other, net	\$ (919 )	(181.0	)%	\$ (327 )
As percentage of total revenue	(1.5	)%		(0.8

Other, net, represents amortization of debt issuance costs, miscellaneous bank fees and charges and realized gain or loss on foreign exchange and investments. Other, net, for fiscal 2005 reflects \$660,000 of debt issuance costs amortization expense associated with the convertible senior notes we issued in March 2004, \$140,000 of bank charges and \$119,000 of investment management fees, net realized loss on foreign exchange and other expenses. Other, net, for fiscal 2004 was \$327,000. For more details on fiscal 2004 other, net, refer to the discussion under the caption *Fiscal Year Ended July 31, 2004 as Compared to Fiscal Year Ended July 31, 2003* set forth below.



*Provision for Income Taxes*

	Year Ended July 31,				
	2005		Percent Change	2004	
	(In thousands, except percentage)				
Provision for income taxes	\$	(805)	(67.4)%	\$	(481)
As percentage of total revenue		(1.3)%			(1.1)%

The provision for income taxes primarily represents foreign withholding taxes on royalties earned from certain foreign customers and state franchise and income taxes and estimated taxes for foreign subsidiaries. The increase in the provision for income taxes for fiscal 2005 was due to an increase in our international operations as a result of our acquisitions and related increase in their net operating income. We expect our effective income tax rate to remain at a relatively low rate in fiscal 2006.

As of July 31, 2005 and 2004, our deferred tax assets, with the exception of Australia as of July 31, 2005, were subject to a full valuation allowance based on our determination that these assets will probably not be realized. We have recorded a deferred tax asset of \$242,000 in Australia as of January 31, 2005.

*Fiscal Year Ended July 31, 2004 as Compared to Fiscal Year Ended July 31, 2003**Revenue*

	Year Ended July 31,				
	2004		Percent Change	2003	
	(In thousands, except percentage)				
Total revenue	\$	42,308	70.2%	\$	24,860

Fiscal 2004 reflected an increase in revenue primarily due from revenue contributions of Intellisync Mobile Suite, professional service and Identity Systems products and technology, as well as the growth in the number of our technology licensing partners. These increases were largely the result of our acquisitions and, we believe, of increase in sales and marketing efforts, both domestically and internationally, and our emphasis on enhancing our product offerings.

- License Revenue.*

	Year Ended July 31,				
	2004		Percent Change	2003	
	(In thousands, except percentage)				
License revenue	\$	28,292	47.6%	\$	19,169
As percentage of total revenue		66.9%			77.1%

A significant portion of the increase in our license revenue for fiscal 2004 was contributed by Synchrologic and Identity Systems. The increase in license revenue was also due to greater demand, as compared with the preceding fiscal year, for certain of our customers' products in which our technology is embedded. The increase in our customers' sales provided us with increased royalty proceeds. As a percentage of total revenue, license revenue decreased due to significant increase in our revenue from professional services as described below, as well as the general impact of the decline in wired or traditional PDA sales to our retail revenue.

- *Services revenue.*

	Year Ended July 31,			
	2004		Percent Change	2003
	<i>(In thousands, except percentage)</i>			
Services revenue	\$ 14,016		146.3 %	\$ 5,691
As percentage of total revenue	33.1	%		22.9 %

The increase in services revenue for fiscal 2004 as compared with that for fiscal 2003 resulted from an increase of \$4,525,000 in professional service revenue associated with our technology licensing partners. The increase in professional service revenue was attributable to new customer contracts primarily associated with our recent acquisitions and increased sales effort. The increase in services revenue was also due to approximately \$3,500,000 increase in amortization of our maintenance contract programs relating to increase in license revenue and a greater focus on renewals.

*Revenue by Customer Group*

	Year Ended July 31,			
	2004		Percent Change	2003
	<i>(In thousands, except percentage)</i>			
Enterprise and retail	\$ 21,564		77.9 %	\$ 12,122
As percentage of total revenue	51.0	%		48.8 %
OEMs	\$ 19,631		54.1 %	\$ 12,738
As percentage of total revenue	46.4	%		51.2 %
Mobile carriers	\$ 1,113		%	\$
As percentage of total revenue	2.6	%		%
Total revenue	\$ 42,308			\$ 24,860

The increase in enterprise and retail products revenue for fiscal 2004 resulted from contributions of products from Synchrologic and Identity Systems (both acquired during fiscal 2004), an increase in revenue from amortization of support and maintenance, and an increase in retail sales of our Intellisync software. This increase for fiscal 2004 was offset by a decrease in revenue from Intellisync Handheld Edition for Enterprise. Less emphasis on marketing of Intellisync Handheld Edition for Enterprise and more on the transition of our enterprise server offering to Intellisync Mobile Suite, during fiscal 2004 contributed to the decrease in revenue from Intellisync Handheld Edition for Enterprise.

The increase in revenue from OEMs was due to greater demand, as compared with the preceding fiscal year, for certain of our customers products in which our technology is embedded. The increase in our customers sales provided us with increased royalty proceeds.

As a percentage of total revenue, revenue from both enterprise and retail and OEMs decreased due to additional revenue received from Identity Systems (acquired in March 2004) and mobile carrier products (initial ramp-up in fiscal 2004). The decrease was also due to the general impact of the decline in wired or traditional PDA sales to our retail revenue.

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*International Revenue*

	Year Ended July 31,					
	2004		Percent Change	2003		
	(In thousands, except percentage)					
International revenue	\$	13,992		57.5 %	\$	8,883
As percentage of total revenue		33.1	%			35.7 %

The year-over-year increase in our international revenues accounted for 29% of our total revenue increase for fiscal 2004. The increase in our professional services revenue and the number of our international technology licensing partners, particularly in Japan, resulted in an increase in our international revenue in absolute dollars during fiscal 2004. The slight decrease in international revenue as a percentage of total revenue for fiscal 2004, on the other hand, was primarily due to increased revenue from our newer offerings in the United States.

*Top Customers*

No customers accounted for more than 10% of our total revenue for fiscal 2004. During fiscal 2003, Ingram Micro US, a distributor, accounted for 10% of our total revenue. No other customers accounted for more than 10% of total revenue during fiscal 2003.

*Cost of Revenue*

	Year Ended July 31,					
	2004		Percent Change	2003		
	(In thousands, except percentage)					
Total cost of revenue	\$	10,701		126.6 %	\$	4,722
As percentage of total revenue		25.3	%			19.0 %

- Cost of License Revenue*

	Year Ended July 31,					
	2004		Percent Change	2003		
	(In thousands, except percentage)					
Cost of license revenue	\$	2,059		74.2 %	\$	1,182
As percentage of license revenue		7.3	%			6.2 %

The increase in cost of license revenue in fiscal 2004 resulted from the increase in overall revenue from enterprise and retail products, much of which was brought about by the assimilation of products from our newly acquired subsidiaries. The cost of cables associated with our Intellisync Phone Edition product also contributed to an increase in our cost of license revenue.

- Cost of Services Revenue*

	Year Ended July 31,					
	2004		Percent Change	2003		
	(In thousands, except percentage)					
Cost of services revenue	\$	5,949		104.3 %	\$	2,912
As percentage of services revenue		42.4	%			51.2 %



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The increase in cost of services revenue in absolute dollars reflected the increase in professional services costs as a result of the Starfish Software, Inc. acquisition in the second half of fiscal 2003 and Spontaneous Technology, Synchrologic and Identity Systems in the first three quarters of fiscal 2004. The decrease in cost of services revenue as a percentage of services revenue was due to low-cost maintenance contracts acquired as part of our acquisitions particularly of Identity Systems.

- *Amortization of Developed and Core Technology*

	Year Ended July 31,				
	2004		Percent Change	2003	
	(In thousands, except percentage)				
Amortization of developed and core technology	\$	2,693	328.8 %	\$	628
As percentage of total revenue		6.4 %			2.5 %

Developed and core technology amounted to \$15,867,000 and \$1,920,000, net of accumulated amortization, as of July 31, 2004 and 2003, respectively. The increase in the amortization of developed and core technology for fiscal 2004 were primarily due to the impact of recently developed and core technology from Starfish, Loudfire, Inc., Spontaneous Technology, Synchrologic and Identity Systems.

*Research and Development*

	Year Ended July 31,				
	2004		Percent Change	2003	
	(In thousands, except percentage)				
Research and development	\$	11,467	55.2 %	\$	7,389
As percentage of total revenue		27.1 %			29.7 %

The increase in research and development spending in absolute dollars was due to acquired workforce of approximately 71 engineers from the acquisition of Spontaneous Technology, Synchrologic and Identity Systems during the first three quarters of fiscal 2004. The decrease in research and development spending as a percentage of revenue for fiscal 2004 resulted from an increase in our total revenue.

*Sales and Marketing*

	Year Ended July 31,				
	2004		Percent Change	2003	
	(In thousands, except percentage)				
Sales and marketing	\$	16,540	44.2 %	\$	11,468
As percentage of total revenue		39.1 %			46.1 %

Sales and marketing expenses increased year-over-year in absolute dollars as a result of establishing strategic relationships with our existing and prospective enterprise customers, as well as increase in sales commissions and increase in marketing program spending to support increased revenue activities driven by our recent acquisitions. We also acquired 22 new sales and marketing employees from Synchrologic during the second quarter of fiscal 2004 and 11 from Identity Systems. Sales and marketing expenses decreased as a percentage of revenue due to an increase in our total revenue.

*General and Administrative.*

	Year Ended July 31,					
	2004		Percent Change		2003	
	(In thousands, except percentage)					
General and administrative	\$	7,639		31.9 %	\$	5,793
As percentage of total revenue		18.0	%			23.3 %

The major factors for the increase in general and administrative spending in absolute dollars for fiscal 2004 include an increase of \$1,040,000 in outside services brought about primarily by legal costs associated with our patent infringement lawsuits and an increase in accounting costs. Also a major factor for an increase in general and administrative expenses was personnel-related costs of \$271,000 as a result primarily of acquisitions of Synchrologic and Identity Systems. General and administrative expenses decreased as a percentage of revenue due to an increase in our total revenue.

*In-Process Research and Development*

	Year Ended July 31,					
	2004		Percent Change		2003	
	(In thousands, except percentage)					
In-process research and development	\$	3,667		803.2 %	\$	406
As percentage of total revenue		8.7	%			1.6 %

The purchase price of each of our acquisitions (Spontaneous Technology, Synchrologic, and Identity Systems in Fiscal 2004 and Starfish in fiscal 2003) was assigned to the fair value of the assets acquired, including the in-process research and development. As of the respective acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, we expensed the in-process research and development of \$469,000, \$2,423,000, and \$775,000 at the date of the acquisition of Spontaneous Technology, Synchrologic and Identity Systems, respectively, in fiscal 2004 and \$406,000 associated with Starfish at the date of its acquisition in fiscal 2003.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations is normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. We assume the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. We, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions did not include significant anticipated cost savings.



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The key assumptions underlying the valuation of acquired in-process research and development are as follows (in thousands, except percentage):

### *Spontaneous Technology*

Project names: Version upgrade of Spontaneous Technology's secure Virtual Private Network, or sVPN

Percent completed as of acquisition date: 60%

Estimated costs to complete technology at acquisition date: \$125

Risk-adjusted discount rate: 22%

First period expected revenue: calendar year 2004

### *Synchrologic*

Project names: Version upgrade of Data Sync, File Sync, E-mail accelerator and Systems Management products

Percent completed as of acquisition date: 60%-70%

Estimated costs to complete technology at acquisition date: \$3,000

Risk-adjusted discount rate: 22%

First period expected revenue: calendar year 2004

### *Identity Systems*

Project names: SSA-NAME3 Version 3.0 and IDS Version 3.0

Percent completed as of acquisition date: 10%

Estimated costs to complete technology at acquisition date: \$600

Risk-adjusted discount rate: 25%

First period expected revenue: June 2005

### *Starfish*

Project name: Mercury platform technology

Percent completed as of acquisition date: 70%

Estimated costs to complete technology at acquisition date: \$375

Risk-adjusted discount rate: 30%

First period expected revenue: calendar year 2004

The development of the above technology remains highly dependent on the remaining efforts to achieve technical viability, rapidly changing customer markets, uncertain standards for a new product, and significant competitive threats from several companies. The nature of the efforts to develop this technology into a commercially viable product consists primarily of planning, designing, experimenting, and testing activities necessary to determine that the technology can meet market expectations, including functionality and technical requirements. Failure to bring the product to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

Subsequent to the acquisition of Spontaneous Technology, Synchrologic, Identity Systems and Starfish, there had been no significant developments related to the current status of the acquired in-process research and development projects that would result in material changes to the assumptions.

*Amortization of Other Intangibles*

	Year Ended July 31,					
	2004		Percent Change	2003		
	(In thousands, except percentage)					
Amortization of other intangibles	\$	1,959	2318.5	%	\$	81
As percentage of total revenue		4.6	%		0.4	%

Other intangible assets, excluding developed and core technology, amounted to \$13,961,000 and \$814,000, net of accumulated amortization, as of July 31, 2004 and 2003, respectively. We continue to amortize other intangible assets, review such assets for impairment under SFAS No. 144, reassess their useful lives and make any necessary adjustments. The increase in the amortization of other intangible assets in fiscal 2004 was primarily due to the impact of recently acquired intangibles from Starfish, Loudfire, Spontaneous Technology, Synchrologic and Identity Systems.

*Restructuring and Other Charges.*

	Year Ended July 31,					
	2004		Percent Change	2003		
	(In thousands, except percentage)					
Restructuring charges:						
Severance costs	\$	253			\$	257
Facilities costs		600				