BACKWEB TECHNOLOGIES LTD
Form 10-Q
August 16, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2004

or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition period from to

Commission File Number 000-26241

BackWeb Technologies Ltd.

(Exact Name of Registrant as Specified in its Charter)

Israel *(State or Other Jurisdiction of Incorporation or Organization)*	**51-2198508** *(I.R.S. Employer Identification Number)*
10 Ha amal Street, Park Afek, Rosh Ha ayin, Israel *(Address of Principal Executive Offices)*	**48092** *(Zip Code)*

(972) 3-6118800

(Registrant s Telephone Number, Including Area Code)

3 Abba Hillel Street, Ramat Gan, Israel
(Former Address, if Changed Since Last Report

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The registrant had 40,717,226 Ordinary Shares outstanding as of August 1, 2004.

BACKWEB TECHNOLOGIES LTD.

REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2004

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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains express or implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. For example, our statements regarding revenue and expense trend expectations in this Quarterly Report under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. The words believes, expects, anticipates, intends, forecasts, projects, plans, estimates, ant similar expressions may identify forward-looking statements. Readers are cautioned not to place undue reliance on the Company s forward-looking statements, as they involve many risks and uncertainties. The Company s actual results may differ materially from such statements. Factors that may cause or contribute to such differences include those discussed in this Quarterly Report under the caption Risk Factors. Although the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and, therefore, we cannot assure you that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking information should not be regarded as a representation by the Company, or any other person, that the future events, plans or expectations contemplated by the Company will be achieved. Forward-looking statements reflect the Company s current views with respect to future events and financial performance or operations and speak only as of the date of this report. The Company undertakes no obligation to issue any updates or revisions to any forward-looking statements to reflect any change in the Company s expectations *with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.*

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PART I FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

BACKWEB TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,732	$ 4,026
Short-term investments	9,142	10,431
Trade accounts receivable, net	1,383	2,403
Other accounts receivable and prepaid expenses	671	782
Total current assets	13,928	17,642
Deposits	520	572
Property and equipment, net	160	301
Total assets	$ 14,608	$ 18,515
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 215	$ 403
Accrued liabilities	2,888	3,813
Deferred revenue	1,042	1,125
Total current liabilities	4,145	5,341
Long-term liabilities	82	213
Commitments and contingencies (Note 3)		
Shareholders equity:		
Ordinary Shares	151,606	151,496
Accumulated other comprehensive income	13	9
Accumulated deficit	(141,238)	(138,544)

Total shareholders equity	10,381	12,961
Total liabilities and shareholders equity	$ 14,608	$ 18,515

Note: The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date

The accompanying notes are an integral part of the condensed consolidated financial statements

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BACKWEB TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(Unaudited)		(Unaudited)	
Revenue:				
License	$ 250	$ 733	$ 919	$ 1,468
Service and maintenance	897	732	1,866	1,524
Total revenue	1,147	1,465	2,785	2,992
Cost of revenue:				
License	16	18	41	73
Service	221	264	613	485
Total cost of revenue	237	282	654	558
Gross profit	910	1,183	2,131	2,434
Operating expenses:				
Research and development	838	1,160	1,809	2,328
Sales and marketing	1,085	1,609	2,037	3,397
General and administrative	635	1,034	1,244	2,026
Restructuring charge / (credit)	(184)		(184)	
Total operating expenses	2,374	3,803	4,906	7,751
Loss from operations	(1,464)	(2,620)	(2,775)	(5,317)
Finance and other income, net	141	12	81	71
Write-down of an equity investment				(1,000)
Net loss	$ (1,323)	$ (2,608)	$ (2,694)	$ (6,246)

Basic and diluted net loss per share	$ (0.03)	$ (0.07)	$ (0.07)	$ (0.16)
Weighted average number of shares used in computing basic and diluted net loss per share	40,705	39,853	40,669	39,813

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

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BACKWEB TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended	
	June 30, 2004	**June 30, 2003**
	Unaudited	
Operating Activities		
Net loss	$(2,694)	$ (6,246)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	(222)	515
Write-down of an equity investment		1,000
Changes in operating assets and liabilities:		
Trade accounts receivable	1,020	(753)
Other receivables, prepaid expenses, and other long-term assets	163	701
Accounts payable and accrued liabilities	(1,221)	(518)
Deferred revenue	(106)	237
Net cash used in operating activities	(3,060)	(5,064)
Investing Activities		
Disposals / (purchases) of property and equipment	363	(37)
Proceeds from sales of short-term investments	1,289	5,516
Net cash provided by investing activities	1,652	5,479
Financing Activities		
Proceeds from issuance of ordinary shares, net	114	9
Net cash provided by financing activities	114	9
Net increase / (decrease) in cash and cash equivalents	(1,294)	424
Cash and cash equivalents at beginning of the period	4,026	18,272

Cash and cash equivalents at end of the period	$ 2,732	$18,696

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

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BACKWEB TECHNOLOGIES LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization BackWeb Technologies Ltd. was incorporated under the laws of Israel in August 1995 and commenced operations in November 1995. BackWeb Technologies Ltd., together with its subsidiaries (collectively, BackWeb or the Company), is a provider of off-line Web infrastructure and application-specific software that enable companies to extend the reach of their Web assets to the mobile community of their customers, partners, and employees. The Company s products address the need of mobile users who are disconnected from a network to access and transact with critical enterprise Web content and applications, such as sales tools, forecast management, contact lists, service repair guides, expense report updates, pricing data, time sheets, collaboration sessions, work orders, and other essential documents and applications. BackWeb sells its products primarily to end users in a variety of industries, including high technology manufacturing, pharmaceuticals, financial services and insurance, telecommunications, entertainment and media, and government, through its direct sales force, resellers, and OEMs.

Basis of Presentation The unaudited interim condensed consolidated financial statements include the accounts of BackWeb Technologies Ltd. and its wholly owned subsidiaries. They have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and with the instructions of Form 10-Q and Article 10 of Regulation S-X. All significant intercompany balances and transactions have been eliminated on consolidation. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) required to fairly state the Company s financial position, results of operations and cash flows for the periods indicated. The condensed consolidated balance sheet at December 31, 2003 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The interim condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003. The results of the Company s operations for the interim periods presented are not necessarily indicative of operating results for the full fiscal year ending December 31, 2004 or any future interim period.

Revenue Recognition To date, the Company has derived its revenue from license fees for its products, maintenance, training, and rendering of consulting services. The Company sells its products primarily through its direct sales force, resellers, and OEMs.

The Company recognizes software license revenue in accordance with Statement of Position 97-2, Software Revenue Recognition, as amended (SOP 97-2), and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP 98-9). SOP 98-9 requires that revenue be recognized under the Residual Method when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the Residual Method, any discounts in the arrangement are allocated to the delivered elements.

Revenue from software license agreements is recognized when all of the following criteria are met as set forth in SOP 97-2: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is probable. The Company does not generally grant a right of return to its customers. When a right of return exists, the Company defers revenue until the right of return expires, at which time revenue is recognized provided that all other revenue recognition criteria have been met. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer provided that all other revenue recognition criteria have been met.

As noted above, when contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, the Company accounts for the delivered elements in accordance with the Residual Method prescribed by SOP 98-9. Maintenance revenue included in these

arrangements is deferred and recognized on a straight-line basis over the term of the maintenance agreement. The VSOE of fair value of the undelivered elements (maintenance, training, and consulting services) is determined based on the price charged for the undelivered element when sold separately.

The Company licenses its products on a perpetual and on a term basis. The Company recognizes license revenue arising from the

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sale of perpetual licenses and multi-year term licenses upon delivery. For term licenses with a contract period of less than two years, revenue arising from the sale of such licenses is recognized ratably on a monthly basis.

The Company derives revenue primarily from software license fees paid by corporate customers and resellers, and from royalty fees from OEMs earned upon delivery of products. Revenue derived from resellers is not recognized until the software is sold through to the end user. Royalty revenue is recognized when reported to the Company by the OEM after delivery of the applicable products. In addition, the Company has granted the right to use the Company s products to OEMs and distributors, from which royalty revenue can arise.

Service revenue is primarily comprised of revenue from standard maintenance agreements, consulting and training fees. Customers licensing products generally purchase the standard annual maintenance agreement for the products. The Company recognizes revenue from maintenance over the contractual period of the maintenance agreement, which is generally one year. Maintenance is available at multiple levels of support and is priced as a percentage of the license revenue. For those agreements where the maintenance and license is quoted as one fee, the Company values the maintenance as an undelivered element at standard rates and defers this over the contractual maintenance period for revenue recognition purposes. The customer may choose to buy a maintenance contract at its option. Consulting services are billed at an agreed upon rate, plus out-of-pocket expenses, and training services are billed on a per session basis. The Company recognizes service revenue from consulting and training when provided to the customer.

Deferred revenue includes amounts billed to customers or cash received from customers for which revenue has not been recognized.

Net Loss Per Share Basic and diluted net loss per share have been computed using the weighted average number of Ordinary Shares outstanding during the applicable period. Basic net loss per share is comprised of the weighted average number of Ordinary Shares outstanding during each period. Diluted net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during the period plus potentially dilutive Ordinary Shares considered outstanding during the period in accordance with SFAS No. 128, Earnings per Share. The total number of Ordinary Shares subject to outstanding options excluded from the earnings per share calculation because they would be considered anti-dilutive was 6,686,473 and 7,697,389 at June 30, 2004 and 2003, respectively.

The following table presents the calculation of the basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended		**Six Months Ended**	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
	Unaudited		**Unaudited**	
Net loss	$ (1,323)	$ (2,608)	$ (2,694)	$ (6,246)
Basic and diluted:				
Weighted-average shares	40,705	39,853	40,669	39,813
Less weighted-average shares subject to forfeiture				

Weighted average number of shares used in computing basic and diluted net loss per share	40,705	39,853	40,669	39,813
Basic and diluted net loss per share	$ (0.03)	$ (0.07)	$ (0.07)	$ (0.16)

Comprehensive Loss The following table presents the components of comprehensive loss (in thousands):

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	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	Unaudited		Unaudited	
Net loss	$(1,323)	$(2,608)	$(2,694)	$(6,246)
Change in net unrealized gain (loss) on investments	(15)	(22)	(41)	9
Change in unrealized gain on forward contracts	30	86	4	74
Total comprehensive loss	$(1,308)	$(2,544)	$(2,731)	$(6,163)

Stock Compensation BackWeb has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (FIN 44), in accounting for its employee stock options. Under APB 25, when the exercise price of the Company s stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

Pro forma information regarding the Company s net loss and net loss per share is required by SFAS 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS 123.

The Company calculated the fair market value of each option grant on the date of grant using the Black-Scholes option-pricing model as prescribed by SFAS 123 and the following assumptions:

	Six Months Ended	
Stock Options	**June 30, 2004**	**June 30, 2003**
Risk-free interest rates	3.8%	2.5%
Expected lives (in years)	5	5
Dividend yield	0%	0%
Expected volatility	95%	132%

	Six Months Ended	
Stock Purchase Shares	**June 30, 2004**	**June 30, 2003**
Risk-free interest rates	3.8%	2.5%
Expected lives (in years)	0.5	0.5

Dividend yield	0%	0%
Expected volatility	95%	132%

Pro forma information under SFAS 123 is as follows (in thousands, except per share data):

	Three Months Ended		**Six Months Ended**	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
	Unaudited		**Unaudited**	
Net loss as reported	$(1,323)	$(2,608)	$(2,694)	$(6,246)
Stock based compensation expense reported in net loss				
Stock based compensation expense determined under the fair value method	(325)	(646)	(697)	(1,313)
Pro forma net loss	$(1,648)	$(3,254)	$(3,391)	$(7,559)
Net loss per share:				
Basic and diluted as reported	$ (0.03)	$ (0.07)	$ (0.07)	$ (0.16)
Basic and diluted pro forma	$ (0.04)	$ (0.08)	$ (0.08)	$ (0.19)

Reclassification Certain prior year amounts have been reclassified to conform to the current period presentation.

Note 2. Write-Down of Equity Investments

The Company invested $3.5 million during 2000 and 2001 in certain development companies in Internet-centric businesses in which the Company believed it had a significant strategic interest. However, due to an extended economic slowdown and the significant decline in capital available to, and in the valuation of, the privately funded Internet-centric businesses, the Company believed that a portion of these investments became impaired during 2001 and recorded a charge of $2.5 million to reflect impairment of these assets below their recorded cost to represent what the Company considered to be a fair value.

In the three months ended March 31, 2003, the Company concluded that the balance of these investments in the amount of $1.0 million was impaired, and the decline in fair value was other-than-temporary. Accordingly, in the three months ended March 31, 2003, the Company recorded a charge of $1.0 million to reflect the impairment to the carrying value of these assets. As of June 30, 2004, there were no remaining amounts on the balance sheet related to these investments.

Note 3. Contingencies

Litigation

On November 13, 2001, BackWeb, six of its officers and directors, and various underwriters for BackWeb s initial public offering were named as defendants in a consolidated action captioned *In re BackWeb Technologies Ltd. Initial Public Offering Securities Litigation,* Case No. 01-CV-10000, a purported securities class action lawsuit filed in the United States District Court, Southern District of New York. Similar cases have been filed alleging violations of the federal securities laws in the initial public offerings of more than 300 other companies, and these cases have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation,* 21 MC 92. A consolidated amended complaint filed in the BackWeb case asserts that the prospectus from our June 8, 1999 initial public offering failed to disclose certain alleged improper actions by the underwriters for the offering, including the receipt of excessive brokerage commissions and agreements with customers regarding aftermarket purchases of shares of our stock. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. On or about July 15, 2002, an omnibus motion to dismiss was filed in the coordinated litigation on behalf of defendants, including BackWeb, on common pleadings issues. In October 2002, the Court dismissed all six individual defendants from the litigation without prejudice, pursuant to a stipulation. On February 19, 2003, the Court denied the motion to dismiss with respect to the claims against BackWeb. No trial date has yet been set.

A proposal has been made for the settlement and release of claims against the issuer defendants, including BackWeb. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. In June 2004, an agreement of settlement was submitted to the court for preliminary approval.

If the settlement does not occur, and litigation against BackWeb continues, BackWeb believes it has meritorious defenses and intends to defend the case vigorously. However, the results of any litigation are inherently uncertain and can require significant management attention, and BackWeb could be forced to incur substantial expenditures, even if it ultimately prevails. In the event there was an adverse outcome, BackWeb s business could be harmed. The Company believes any expenditures related to a settlement would be covered under its directors and officers liability insurance. This insurance carries a deductible of $250,000, of which the Company has satisfied approximately $90,000 through June 30, 2004.

The Company and certain of its officers are currently parties to various other legal proceedings and may become involved, from time to time, in other legal proceedings in the ordinary course of the Company s business activities in the future. In the event there were an adverse outcome with respect to any of these proceedings, the Company s business could be harmed. Thus, the Company cannot provide assurances that these lawsuits will not materially and adversely affect the Company s business, results of operations or share price.

From time to time BackWeb is involved in litigation incidental to the conduct of its business. Apart from the litigation described above, BackWeb is not party to any lawsuit or proceeding that, in BackWeb s opinion, is likely to seriously harm its business.

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Significant Risks

Due to uncertainties in the technology market in particular and the economy in general, the Company has limited visibility to forecast future revenues. While the Company believes there is a market for its products, this lack of revenue visibility exposes the Company to risk should it not be able to adjust its expenditures to mitigate unfavorable trends in its revenue.

Note 4. Restructuring Liabilities

On September 30, 2002, the Company announced a restructuring plan, which was implemented in the three months ended December 31, 2002. The restructuring plan included a reduction in workforce, vacating certain facilities, canceling of office service leases and impairment of fixed assets as a result of employee terminations and office consolidation. The Company recorded a charge in 2002 of $4.7 million which consisted of $1.6 million of severance and benefit costs, which included forgiveness of a $221,000 shareholder note receivable to one employee, $2.7 million of facility costs representing early termination penalties, office restoration costs and an accrual of certain lease commitments, $200,000 related to the write-down of fixed assets and $200,000 related to other related restructuring costs. In November 2003, the Company accrued an additional charge of approximately $443,000 due to a change in estimate on its facilities costs, of which approximately $289,000 related to the impairment of lease space in its Canadian subsidiary, $120,000 related to an exchange of warrants to the landlord as part of the final settlement of lease space at its headquarters in San Jose, California and approximately $34,000 of other office lease impairment charges.

On July 2, 2001, the Company announced a restructuring plan, which was implemented in the three months ended September 30, 2001. The restructuring plan included a reduction in workforce, vacating certain facilities and canceling office service leases as a result of employee terminations and office consolidation. The Company recorded a charge of $2.8 million, which consisted of $1.3 million of severance and benefit costs, $1.4 million of facility costs representing early termination penalties, office restoration costs and an accrual of certain lease commitments related to the closure and consolidation of offices in Europe, Japan and the United States, and $100,000 related to other related restructuring costs.

During the second quarter of 2004, the Company settled a lease agreement related to its Canadian subsidiary for approximately $187,000. This settlement was more favorable than had been originally accrued for, resulting in a decrease in restructuring expense of approximately $184,000. Net restructuring charges remaining at June 30, 2004 were approximately $100,000. The remaining restructuring accrual is expected to be substantially utilized through December 31, 2004.

The following table summarizes the costs and activities related to the 2001 and 2002 restructurings (in thousands):

	Involuntary Terminations	Facilities and Other	Total
Total charge 2001 restructuring	$ 1,300	$ 1,500	$ 2,800
Cash payments 2001 restructuring	(700)	(1,300)	(2,000)
Balance at December 31, 2001	600	200	800
Cash payments 2001 restructuring	(600)	(200)	(800)

Total charge 2002 restructuring	1,600	3,100	4,700
Cash payments 2002 restructuring	(1,300)	(2,000)	(3,300)
Balance at December 31, 2002	300	1,100	1,400
Change in estimate 2002 restructuring		400	400
Cash payments 2002 restructuring	(300)	(1,000)	(1,300)
Balance at December 31, 2003		500	500
Cash payments 2002 restructuring			
Balance at March 31, 2004		500	500
Change in estimate 2002 restructuring		(200)	(200)
Cash payments 2002 restructuring		(200)	(200)
Balance at June 30, 2004	$	$ 100	$ 100

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Note 5. Segments and Geographic Information

BackWeb operates in one industry segment, the development, marketing and sales of network application software. Operations in Israel include research and development and sales. Operations in North America and Europe include sales and marketing, and administration. The following is a summary of operations within geographic areas based on the location of the legal entity making that sale (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	Unaudited		Unaudited	
Revenue:				
North America	$ 935	$1,071	$2,124	$2,051
Israel	28	175	63	352
Europe	183	219	598	589
	$1,147	$1,465	$2,785	$2,992

	June 30, 2004	December 31, 2003
	Unaudited	
Total assets:		
North America	$ 1,833	$ 3,049
Israel	12,071	14,859
Other	704	559
	$14,608	$18,507

Revenue generated in the U.S. and Canada (collectively, North America) and Europe is all to customers located in those geographic regions. Revenue generated in Israel consists of export sales to end-customers located in the rest of the world, excluding North America and Europe. OEM sales are made to all geographic regions. One customer accounted for $524,000, or 19%, and another customer accounted for 284,000, or 10% of our total revenue, in the six months ended June 30, 2004. Four customers accounted for $168,000, or 15%, $150,000, or 13%, $124,000, or 11%, and $121,000, or 11%, of total revenue, respectively, in the three months ended June 30, 2004.

Note 6. Guarantees

Under the terms of the Company s standard contract with its customers, the Company agrees to indemnify the customer against certain liabilities and damages to the extent such liabilities and damages arise from claims that such customer s use of the Company s software or services infringes intellectual property rights of a third party. The Company believes that these terms are common in the high technology industry. The Company does not record a liability for potential litigation claims related to indemnification obligations with its customers as it cannot be estimated accurately. The Company does not believe the likelihood of a material obligation is probable.

Note 7. Short-Term Investments

The following is a summary of the Company s available-for-sale marketable securities (in thousands):

June 30,					
2004			2003		
Cost	Unrealized Gain/(Loss)	Estimated Fair Value	Cost	Unrealized Gains	Estimated Fair