INTELLISYNC CORP
Form 10-K
October 14, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended July 31, 2004
OR

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

For the transition period from _____________ to _______________

Commission File Number 0-21709

INTELLISYNC CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**77-0349154** (I.R.S. Employer Identification No.)
2550 North First Street, Suite 500 **San Jose, California** (Address of principal executive offices)	**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
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 [X] No [ ]

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 [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $294,521,890 at January 31, 2004, the registrant s most recently completed second fiscal quarter.

The number of the registrant s $0.001 par value Common Stock outstanding as of September 15, 2004, was 65,783,251 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III

Certain sections of the proxy statement for registrant s 2004 Annual Meeting of Stockholders tentatively scheduled for November 5, 2004 to be filed with the Commission pursuant to Registration 14A no later than 120 days after the end of the fiscal year ended July 31, 2004.

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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 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 carrier-class software that enable consumers, business professionals and information technology professionals to extend the capabilities of enterprise groupware and vertical applications, handheld organizers/computers, Web-enabled mobile phones, pagers and other wireless or wireline personal communications platforms. Our products are designed to improve the productivity of business professionals who require access to essential, current information, anytime and anywhere.

Intellisync Corporation was incorporated in California on August 27, 1993 as Puma Technology, Inc. and was subsequently reincorporated in Delaware on November 27, 1996. We changed our corporate name from Pumatech, Inc. to Intellisync Corporation effective February 17, 2004. 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. 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 email, 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 16 to consolidated financials statements set forth in Part IV of this Annual Report on Form 10-K.

We license our software products directly to corporations, wireless 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 120 distributors, resellers and retailers in North America, Europe, the Asia-Pacific region, South America and Africa.

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. They are also available by contacting our Investor Relations at invrel@intellisync.com or 408-321-7650. These filings are also accessible on the SEC s Web site at www.sec.gov. The public may read and copy any materials we filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, 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

In recent years, significant advancements in miniaturization, visual displays, long-life batteries and portable communications have led to the introduction of many innovative 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. The growth of the mobile computing industry began with the widespread adoption of notebook computers, which provided mobility and an extension of corporate enterprise data. This was followed by the emergence of handheld devices to which personal information was delivered locally from a desktop personal computer, or PC. Today, in this period of anytime, anywhere access, the mobile computing industry is capitalizing on both wired and wireless access to information that can reside on a PC, an intranet/corporate server or even on the Internet. This information or content is often highly customized, based on distinct user preferences.

As a result of an increase in worldwide use of mobile communications, the mobile computing market has been on a steady growth path since the mid-1990s. Smart electronic consumer devices, such as personal digital assistants, or PDAs, which are also known as handhelds, smart phones and pagers, have become more broadly available and adopted, and other mobile communications services have become more widely accessible and affordable, providing data storage and information management capabilities to the mobile business professional. Today s popular handheld devices include Palm OS®-based solutions (including Treos devices) from Palm, Inc. and others; Pocket PC/Windows CE-based devices from Hewlett-Packard Company, Toshiba America, Inc., Dell, Inc. and others; Symbian-based handhelds from companies like Psion PLC; and BlackBerry® devices from Research in Motion. In recent years, these handheld devices have faced stiff competition from an increasing range of converged mobile devices capable of handling basic handheld tasks. These converged mobile devices, or smart phones, are handhelds that are either voice- or data-centric and are capable of synchronizing personal information and email with server, desktop, or laptop computers. According to the industry analyst firm International Data Corporation, or IDC, demand for handhelds that integrate cell phone, email, Web access, and other features should continue to grow as more and more enterprises, as well as users, take advantage of converged features bundled in a single device.

As more types of new mobile computing devices become available to business professionals and enterprises, users are faced with the difficulty of exchanging information among these various devices. This problem of interoperability is caused by the need to exchange information among different hardware devices, operating systems and applications. Hardware platforms range from high-speed Pentium PCs with hundreds of megabytes of memory and gigabytes of storage, to shirt pocket organizers, with specialized processors and limited memory and storage. In addition, these devices use numerous operating systems, such as Windows 2000, Windows XP, Windows NT, Pocket PC/Windows CE, DOS, Palm OS, Symbian and others, and utilize an even greater range of information management applications, databases and data formats. Enabling these devices to communicate, exchange and synchronize information is a complex and challenging task. Simply facilitating synchronization requires data-level, or content-aware, synchronization technology to maintain complete, up-to-date and accurate information. For example, content-aware data synchronization technology allows users to exchange addresses from the Address Book software application on a Palm OS handheld with Microsoft Outlook on a PC or Lotus Domino on a corporate server, updating only the fields that have been most recently modified, rather than copying one file over another, thereby synchronizing both databases with the latest information.

With the increasing mobility of workforces, 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 new, innovative mobile computing devices. In order to manage information effectively, these users need convenient connectivity and synchronization solutions for the specific combination of devices and applications that they use. These software solutions must allow 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 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.

We intend to exploit potential wireless carrier market opportunities by working with wireless carriers to enhance and develop innovative wireless applications including those relating to wireless email, data sync and device management services. There are currently more than 1.5 million users of wireless email. As market acceptance and demand for wireless email, data sync and device management increase, we believe this growing number of users will demand an increasing variety of services. We expect to enhance our current products, technology and infrastructure to broaden and expand those potential services to address wireless carrier market.

Refer to the discussion below under the captions *Risk Factors 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,* and *Risk Factors We are placing increasing emphasis on our carrier hosting services of which potential rapid growth may be difficult to manage effectively, and, as a result, our results of operations could be adversely affected.*

OUR STRATEGY

Our strategy is to be a leading provider of mobile and wireless infrastructure software 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 industry vendors. 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, wireless 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. In connection with our rebranding efforts, we plan to enhance awareness of 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.

Pursue Strategic Acquisitions. We have acquired and integrated core technologies from Starfish Software, Inc., Loudfire, Inc., Spontaneous Technology, Inc., Synchrologic, Inc. and Search Software America. We intend 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 Sequential Revenue Growth and Improve Operating Efficiencies. We maintain a disciplined commitment to increasing our quarterly revenue. Together with our other strategy 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 by identifying and implementing best practices throughout our operations, removing administrative complexities, eliminating redundancies, and integrating acquired businesses.

OUR TECHNOLOGY SOLUTIONS

We provide enterprises, network operators, mobile device manufacturers and software providers with a complete mobility platform, anchored by our award-winning Intellisync family, the Intellisync Mobile Suite enterprise server platform, the Intellisync SyncML Server platform, the Intellisync Software Development Platform and Identity Systems, or IDS software. Our comprehensive suite of software products and services synchronizes and distributes critical information, delivering unlimited mobility to end users. We design our products to:

Enable intelligent, content-aware data synchronization: Our solutions enable up-to-the-minute e-mail, personal information management, or PIM, and database information to be reflected across all devices utilized in the enterprise from desktop and notebook PCs to handhelds, phones and pagers. Our multi-patented synchronization technology provides content-aware data synchronization among this growing number of mobile devices and essential enterprise applications such as Microsoft Outlook and Exchange, Lotus Notes and Domino and Novell GroupWise. Our technology seamlessly and transparently translates the information from one data format to another as the information is synchronized. With the Intellisync Software Development Platform, we have enabled independent software vendors, or ISVs, device OEMs and Internet-based services to build synchronization solutions for their products based on the Intellisync platform, further enhancing our standard product range.

Allow anytime, anywhere handheld access to corporate applications: With the Intellisync Mobile Suite enterprise server platform, we are providing a single resource for synchronizing PIM data, e-mail, documents and custom database information, both locally and remotely, between PCs, servers, and mobile devices, and for managing handheld software and devices from one centralized location.

Enable centralized management: Through the Intellisync Mobile Suite platform solution and our Enterprise Intellisync (desktop) software, we enable IT managers to manage our Intellisync platform using a centralized administrator console to easily and quickly deploy software licenses, configure devices and applications based on user needs, establish security privileges and troubleshoot software by receiving and viewing detailed user logs and much more.

Enable carrier-class synchronization: In addition to Intellisync Mobile Suite platform solution, Intellisync SyncML Server software is a highly scalable synchronization engine that provides multi-tier, over-the-air and wireline synchronization between a varied array of devices, applications and services. The TrueSync Server is SyncML 1.1-certified and supports a wide variety of platforms, databases, applications, protocols and transports, for broad interoperability. Its distributed architecture allows for scalability, high availability and redundancy for millions of users, making it an ideal solution for carriers.

Provide network and device independent solutions for broad interoperability: Our products provide connectivity and synchronization among industry-leading PCs and mobile computing devices, operating systems and applications. They operate with major PC operating systems for Windows 98, Windows 2000, Windows XP, Windows Me, and Windows NT, as well as several proprietary operating systems. We also provide interoperability across a wide range of industry-standard and vendor-specific applications by supporting multiple data formats.

Provide identity matching. Our Identity Systems, or IDS, software is an out of the box solution for searching and matching names, addresses, and identity data for Oracle, DB2/UDB, and SQL Server. Without requiring programming or changes to existing database tables, IDS provides high-quality search, matching, duplicate discovery, and relationship linking for all forms of identification data. Without impacting the database update efficiency, IDS transparently maintains its own high performance fuzzy indexes, and efficiently de-normalized tables. IDS is used with existing databases or to construct new

databases or repositories. The data to be indexed can be stored in local or distributed databases, or sourced from flat files. IDS includes a highly scalable Identity Search Server™ that operates efficiently on both single and multiple processors.

Allow real-time, secure, remote information access: This technology allows anyone with an Internet browser or Web-enabled phone to enjoy real-time access to email and PIM data located in either Microsoft Outlook or Outlook Express and also provides secure access to pre-specified files residing on a host PC.

Provide secure VPN solutions: Our carrier-grade VPN technology is designed to provide secure, remote access to corporate applications from any wireless device or operating system such as Microsoft (NT & Pocket PC), SUN (Solaris, Java, J2ME), Palm OS and Symbian, without requiring infrastructure changes.

PRODUCTS

We provide 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 mirror 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
Synchronization		
Intellisync Mobile Suite	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.	December 2003 (acquired)
Intellisync Handheld Edition	Enables direct synchronization of calendars, e-mail, contacts, and tasks between Palm OS, Pocket PC/Windows CE, Windows Mobile and Symbian Release 5.0-compatible devices and the leading PC-based personal information management, or PIM, contact management and groupware messaging applications.	August 1996
Intellisync Phone Edition	Enables two-way synchronization of contacts between either Microsoft Outlook, Outlook Express or Lotus Notes and popular mobile phones from LG Electronics, Inc., Motorola, Nokia, Inc., Inc., Samsung Electronics, Inc., Sanyo Corporation and Sony Ericsson Mobile Communications AB.	October 2003
Intellisync Handheld Edition for Enterprise	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.	June 2001

Product Name	Description	Introduction Date
Intellisync Mobile Suite for Wireless Operators	Offers a network-based push email and PIM synchronization with the same functionality found in the enterprise version of Intellisync Mobile Suite, along with file access and device security, for a broad set of wireless devices including Microsoft Windows Mobile for Pocket PC and Smartphone, Palm OS, Symbian OS, and wireless tablet PCs or laptops.	July 2003 (acquired)
Intellisync SyncML Server	Provides a SyncML-compliant solution for over-the-air synchronization of PIM data across applications, devices, and networks. The product is designed to provide wireless carriers with the ability to offer their customers multi-point synchronization services for SyncML phones and Palm OS® or Pocket PC handhelds.	March 2003 (acquired)
Application Development		
Intellisync Software Development Platform	Provides a solution for adding intelligent synchronization to enterprise applications, mobile devices and Web-based services. Intellisync Software Development Platform is designed to enable users to keep their critical information up-to-date and in sync across multiple applications and mobile devices.	February 1998
Intellisync Server to Server	Provides organizations with a solution aimed at augmenting enterprise server applications through access to the PIM and email information housed in Microsoft Exchange, Lotus Notes, databases and other information sources.	August 2003
Identity Matching		
Identity Systems or IDS	Enhances an organization s ability to search, find, match and group identity data within their computer systems and network databases. Identity Systems, or IDS, 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 (acquired)

SALES AND MARKETING

We market and sell our products through a direct sales force and several distribution channels in the United States and internationally, including retail, the Internet, value-added resellers, system integrators. We have also historically leveraged our relationship with original equipment manufacturers, or OEMs, enterprises and wireless carriers around the world to market or to create marketing opportunities for our applications. 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 and Tokyo, Japan and a number of sales representatives working from their homes in the United States, the United Kingdom, Italy and Germany, to cover local territories.

We will continue to leverage our relationships with industry leaders and to expand and diversify our own sales and marketing initiatives to increase our sales to wireless carriers and enterprises.

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*.

Increasingly, we target sales efforts at the organizations named in the Global 2000 survey of the largest corporations in the world and other large enterprises that have a demand for wireless and mobile data solutions. We distribute our software products directly to corporate customers through our enterprise licensing programs of Intellisync Mobile Suite, and Intellisync Handheld Edition for Enterprise software. To date, our software products have been licensed by, and embedded into solutions offered by over 230 companies. Additionally, our Intellisync synchronization technology has a presence in more than half of Fortune 500 companies.

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. We also work with a number of strategic partners, including wireless operators, device manufacturers and systems integrators to train certain of their sales forces and collaborate with them in joint marketing programs.

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 republishers 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, 2004, we were represented by over 120 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 republishers 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 revenues*.

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 2004. During fiscal 2003 and 2002, Ingram Micro US accounted for 10% and 17% of our total revenue, respectively.

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 will also continue to leverage our relationships with industry leaders and to expand and diversify our own sales and marketing initiatives to increase our sales to wireless carriers and enterprises.

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 slight 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. Sales of mobile devices can also be weak in the months of January and February following typically stronger sales in the months of November and December. 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 date 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 enables 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 Phone Edition, Intellisync SyncML Server and Identity Systems.

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 2000, Windows Me, Windows NT or Windows XP operating system 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. 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 revenues*.

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 facility in Sofia, Bulgaria and recently opened facility in Cluj-Napoca, Romania to accommodate the recently transferred workforce from SoftVision, SRL. 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 products 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 focus from cabled synchronization to synchronization for wireless handhelds, smartphones, laptops and tablets, at 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 2004, 2003 and 2002, research and development expenses were $11.5 million, $7.4 million and $15.2 million, respectively. 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., International Business Machines, or IBM, Microsoft Corporation, Oracle Corporation, Pfizer, Inc. and Yahoo!, Inc.

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 Search Software America Pty. Ltd., or SSA, Synchrologic, Inc., Spontaneous Technology, Inc., substantially all of the assets of Loudfire, Inc. and Starfish Software, Inc.

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 64 issued United States patents that expire in 2012 through 2021, with 58 patent applications pending. We also license seven patents from third parties.

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, PIMs, enterprise applications and data bases that must be synchronized.

We believe that the aggressive 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. For example, in August 2004, NCR Corporation filed a complaint against us in the U.S. District Court for the Southern District of Ohio Western Division (Dayton) alleging that certain of our products infringe upon three of NCR s patents. Based on a lengthy review, we believe that we do not infringe upon any of the asserted NCR patents. Separately, on September 9, 2004, we filed a petition complaint for declaratory judgment against NCR requesting, among other things, that a judgment be entered finding that we do not infringe an NCR patent asserted against one of our licensees, Garmin Ltd.

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 be in the future be involved in litigation that could result in significant costs to us.*

EMPLOYEES

As of July 31, 2004, we had a total of 349 full-time employees, including 228 in engineering, professional services and customer support, 86 in sales and marketing and 35 in operations, finance and administration. The increase in our number of employees from the beginning of fiscal 2004 resulted from the added headcount from our recent acquisitions, including certain engineering employees transferred from SoftVision SRL, a Romanian corporation, associated with the opening of our engineering facility in Cluj-Napoca, Romania.

157 of our employees are located outside the United States, including 88 in Romania, 31 in Bulgaria, 16 in other parts of Europe, 14 in Australia and eight 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 sequential revenue growth since the fiscal quarter ended October 31, 2002, we cannot be certain that this growth will continue at the same rate, or that our revenues will not decline in the future. We have experienced losses of $9.5 million, $7.7 million and $34.5 million for fiscal 2004, 2003 and 2002, respectively. At July 31, 2004, we had an accumulated deficit of $131.1 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 new and 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 revenues 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 revenues 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:

- the recent decline in the market for traditional personal digital assistants;
- our ability to realize our goals with respect to recent and potential future acquisitions;
- our need and ability to generate and manage growth;
- market acceptance of products in which our software is integrated by original equipment manufacturers, or OEMs;

- growth in the market for enterprise synchronization applications and our ability to successfully address this market;
- rapid evolution of technology;
- our evolving business model;
- litigation-related expenses;
- our reliance on international sales and growth;
- our ability to penetrate the European market;
- fluctuations in gross margins;
- the seasonal nature of the market for our products;
- changes in the market for synchronization;
- introduction of new products and services by us or our competitors;
- changes in our mix of sources of revenues;
- entrenched and substantial competition; and

continued difficult political and economic conditions.

Additionally, we generally derive our technology licensing revenues 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 revenues, total revenue from individual customers in the initial quarters of a contract may exceed the revenues 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 revenues.

If we fail to develop and sell products designed for OEMs, enterprises and wireless carriers, our revenues 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 Synchrologic and SSA. Our operating plans assume revenue growth from this 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 revenues 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 revenues 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 revenues and operating results may be materially and adversely affected.

We are placing increasing emphasis on our carrier hosting services of which potential rapid 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 carrier hosting services, of which we expect a high rate of growth. 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 wireless carriers. The rapid growth of our carrier 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 expansion of our rapid growth. If we are unable to manage our growth successfully, our business and results of operations could be harmed.

We expect that we may become increasingly dependent on wireless carriers for the success of our wireless handheld and smartphone products.

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 wireless carriers. We cannot assure you that we will be successful in establishing new relationships or advancing existing relationships with wireless carriers or that these wireless carriers will act in a manner that will promote the success of our wireless products. Factors that are largely within the control of wireless carriers but which are important to our success, include:

testing of our products on wireless carriers networks;

quality and coverage area of wireless services offered by the wireless carriers;

the degree to which wireless carriers facilitate the introduction of and actively promote, distribute and resell our products;

the extent to which wireless carriers require specific hardware and software features on our products to be used on their networks;

contractual terms and conditions imposed on us by wireless carriers that, in some circumstances, could limit our ability to make similar products available through competitive carriers in some market segments; and

wireless carriers pricing requirements and subsidy programs.

Wireless 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. Wireless carriers also place significantly conditions on our ability to develop and launch products for use on their wireless networks. If we fail to address the needs of wireless carriers, identify new product and service opportunities or modify or improve our products in response to changes in technology, industry standards or wireless 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 wireless carriers, those carriers may choose to offer similar products from our competitors and thereby reduce their focus on 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 wireless 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 wireless carriers and enterprise 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 wireless 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.

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

Our commitment to providing quality services to our enterprise and wireless carrier customers may result in our hosting services revenue to have a lower gross margin than other services and license revenues. Due to the lower margin, an increase in the hosting services revenue as a percentage of total revenues 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 employees and 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.

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 revenues from technology licensing depend, in large part, on our ability to develop and maintain relationships with OEM 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. The traditional personal digital assistant market, appears to be declining and may continue to do so, just as sales in competing markets, such as smartphones and other multi-function mobile phones may be increasing. 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 be able to respond effectively to the technological requirements of the changing market.

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.

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:

- the growth in access to, and market acceptance of, new interactive technologies;
- 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;
- increases in bandwidth for data transmission;
- our distribution and pricing strategies as compared with those of our competitors;
- 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.

Our revenues from consumer sales are 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. In addition, Sony Corporation recently announced its departure from the US PDA market, dropping development of its CLIE product line in the United States. 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. Ingram Micro US is our largest distributor and accounted for less than 10% of our total revenue during fiscal 2004 and 10% and 17% of our total revenue during fiscal 2003 and 2002, respectively. 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 revenues from PDA-related software, or if we experience disruption in, or reduced selling efforts from, our distribution channels, our revenues derived from consumer sales would be adversely affected.

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

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 Phone Edition, Intellisync SyncML Server and Identity Systems:

Intellisync Mobile Suite server-based software Aether Systems, CommonTime, Extended Systems, FusionOne, Inc., Good Technology, Inc., InfoSpace, Inc., Infowave Software, JP Mobile, Inc., Microsoft, Openwave, Inc., Research In Motion Limited, Sybase Inc. s iAnywhere, Wireless Knowledge, Inc., and others.

Intellisync consumer and enterprise desktop sync products Chapura, Inc. s Pocket Mirror, CommonTime s Cadenza mNotes, Extended Systems, Inc. s OneBridge Mobile Groupware, IBM Corporation s Lotus Software EasySync Pro, Microsoft Corporation s ActiveSync, Palm Desktop from PalmSource, Inc., Sybase Inc. s iAnywhere, and others.

Intellisync Phone Edition software FutureDial, Inc. s SnapSync, Susteen, Inc. s DataPilot and others.

Intellisync SyncML Server and Intellisync Mobile Suite for Wireless Operators Good Technology, Inc., Research In Motion Limited, Seven Networks, Inc., Smartner Information Systems Ltd, Visto Corporation, and others.

Identity Systems Ascential, Dataflux, Firstlogic, Group1, 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 2000, Windows Me, Windows NT or Windows XP 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.

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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 has 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 alleges that certain of our products infringe upon three of NCR s patents. We have also received a notice from a customer to which we may have indemnification obligations under some circumstances, informing us that it had received a notice from a third party alleging that the customer s product infringes the third party s proprietary rights. We or our customers may receive other similar notices from third parties 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.

Based on our lengthy review of NCR s claim, we believe that we do not infringe upon any of the asserted NCR patents. Separately, on September 9, 2004, we filed a complaint for declaratory judgment against NCR requesting, among other things, that a judgment be entered finding that we do not infringe an NCR patent asserted against one of our licensees, Garmin Ltd., and finding that patent to be invalid.

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. For example, in 2002, we filed a patent infringement suit against Extended Systems, alleging that Extended Systems server and desktop products infringe on eight of our synchronization-related patents. We recently settled this litigation matter. 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 had been in the past and may in the future be required to spend significant time in the prosecution of such suit. 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.

If we are forced to defend against third-party infringement claims such as that made by NCR, whether they are with or without merit or are determined in our favor, we could face expensive and time-consuming litigation, which could distract technical and management personnel, or result in product shipment delays. If an infringement claim is determined against us, we may be required to pay monetary damages or ongoing royalties. Further, as a result of infringement claims either against us or against those who license technology to or from us, we may be required to develop non-infringing intellectual property or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party successfully asserts an infringement claim against us and we are required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar intellectual property on reasonable terms on a timely basis, it could significantly harm our business. Any litigation, whether brought by or against us, could cause us to incur significant expenses and could divert a large amount of management time and effort. A claim by us against a third party could, in turn, cause a counterclaim by the third party against us, which could impair our intellectual property rights and harm our business.

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

International revenue, primarily from customers based in Japan and Europe, accounted for 33%, 36% and 31% of our revenue in fiscal 2004, 2003 and 2002, respectively. The increase in our international annual revenues from fiscal 2003 to fiscal 2004 accounted for 29% of our total annual revenue increase for fiscal 2004. 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, which we do not hedge against;
- difficulties in staffing and managing international operations;

potentially adverse tax consequences; 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 in Europe, and these investments may not generate offsetting increases in revenues. 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 established engineering facilities in Sofia, Bulgaria and Cluj-Napoca, Romania and, 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 revenues or cause us to lose money, especially since we do not hedge against currency fluctuations.

To date, the majority of our customers have paid for our products and services in United States dollars. For fiscal years 2004, 2003 and 2002, costs denominated in foreign currencies were nominal and we had minimal foreign currency losses during those periods. However, 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 small portion of our international revenues are currently subject to the risks of foreign currency fluctuations, and these risks will increase as our international revenues increase.

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 SoftVision SRL s workforce (through a transfer in June 2004), Search Software America Pty. Ltd. (in March 2004), Synchrologic, Inc. (in December 2003) and Spontaneous Technology, Inc. (in September 2003), substantially all of the assets of Loudfire, Inc. (in July 2003) and Starfish Software, Inc. (in March 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;

unanticipated costs and liabilities;

amortization expenses related to intangible assets (other than goodwill); and

impairment charges under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

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, 2004, our goodwill, developed and core technology and other intangibles amounted to $95,116,000, 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 $8,386,000, $7,720,000, $6,777,000, $3,354,000 and $3,591,000 of developed and core technology and other intangibles in fiscal 2005, 2006, 2007, 2008 and thereafter, respectively. 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.

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 may have difficulty implementing in a timely manner the internal controls procedures necessary to allow our management to report on the effectiveness of our internal controls, and we may incur substantial costs in order to comply with the requirements of the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act of 2002 has introduced many new requirements applicable to us regarding corporate governance and financial reporting. Among many other requirements is the requirement under Section 404 of the Act for management to report on our internal controls over financial reporting and for our registered public accountant to attest to this report. We are required to comply with Section 404 effective the fiscal year ending July 31, 2005. Our management has begun the necessary processes and procedures for issuing its report on our internal controls

Our recent acquisitions of companies, some of which have operations outside the United States, provided us with challenges in implementing the required processes and procedures in our acquired operations. These acquired companies may not have disclosure controls and procedures or internal controls over financial reporting that are as thorough or effective as those required by securities law in the United States. We, therefore, intend to devote substantial time and have incurred and will continue to incur substantial costs during fiscal 2005 to implement appropriate controls and procedures in all our offices, including our acquired companies to ensure compliance. We cannot, however, be certain that we will be successful in complying with Section 404.

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. We have recently issued shares of our common stock in connection with our acquisitions of Synchrologic and Spontaneous Technology and substantially all of the assets of Loudfire.

As of September 15, 2004, we had approximately 65,783,251 shares of common stock outstanding. The total number of outstanding shares includes a total of approximately 1,435,890 shares of common stock issued in connection with our acquisitions that are subject to certain contractual restrictions. These restrictions expire, and the shares will become freely tradable, as follows:

- up to 1,211,000 shares that may be released from escrow on December 31, 2004, issued in connection with our acquisition of Synchrologic; and
- up to 224,890 shares that may be released from escrow on or before March 31, 2005, issued in connection with our acquisition of Spontaneous Technology.

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, 2005, as follows:

- approximately 170,000 shares of our common stock that may be issued in February 2005 under our employee stock purchase plan;
- up to 2,093,928 shares of our common stock that may be issued in October 2004 if certain earn-out conditions in our acquisition of Spontaneous Technology are achieved (to date, the required run rate has not been met, we therefore do not anticipate issuing any of these shares); and
- 4,289,950 shares issuable upon exercise of outstanding options that will be vested by July 31, 2005.

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.

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

Based on accounting standards involving stock compensation, we have incurred and will continue to incur noncash accounting charges related to stock options, including those associated with our cancellation/regrant programs. Those standards require us to remeasure compensation costs for such options each reporting period based on changes in the market value of the underlying common stock. Depending upon movements in the market value of our common stock, the variable accounting treatment of those stock options may result in significant additional non-cash compensation costs in future periods.

In addition, the Financial Accounting Standards Board (FASB) recently issued a proposed statement, *Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95*, that addresses the accounting treatment for employee stock options and other share-based payment transactions. The proposed statement would eliminate 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 would require that such transactions be accounted for using a fair-value-based method and recognized as expenses. If passed, the proposed statement and the change in accounting treatment could result in our reporting increased operating expenses, which would decrease any reported net income or increase any reported net loss, and could adversely affect the market price of our common stock.

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. The lawsuit could also divert the time and attention of our management. Further, any settlement of such a lawsuit could adversely affect us.

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, Woodson Hobbs; chief operating officer, Clyde Foster; chief marketing officer, Robert Gerber; chief strategy officer, Steven Goldberg; chief financial officer, J. Keith Kitchen; and chief technology officer, Said Mohammadioun, 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 revenues 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 will adversely affect our business.

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

To increase awareness for our new and existing products, technology and services, we expect 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 wireless

carriers and enterprises. If our marketing strategy is unsuccessful, we may not be able to recover these expenses or even generate any revenues. 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.

We are exposed to the risk of product returns from retailers, which are estimated and recorded by us as a reduction in sales.

Although we attempt to monitor and manage the volume of our sales to retailers, overstocking by retailers or changes in their inventory level policies or practices may require us to accept returns above historical levels. In addition, the risk of product returns may increase if the demand for new products we introduce is lower than what we anticipate at the time of introduction. Although we believe that we provide an adequate allowance for sales returns, actual sales returns could exceed our estimated recorded allowance. Any product returns in excess of recorded allowances could result in a material adverse effect on net revenues and operating results. As we introduce more products, timing of sales to end users and returns to us of unsold products by distributors and resellers become more difficult to predict and could result in material fluctuations in quarterly operating results.

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.

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.

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.

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.

EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

The executive officers and directors of Intellisync as of September 1, 2004, are as follows:

Name	Age	Position
Woodson Hobbs	57	President, Chief Executive Officer and Director
Clyde Foster	43	Chief Operating Officer
Robert Gerber	41	Chief Marketing Officer
Steven Goldberg	42	Chief Strategy Officer
J. Keith Kitchen	41	Chief Financial Officer
Said Mohammadioun	57	Chief Technology Officer and Director
Michael M. Clair	56	Chairman of the Board, Compensation Committee and Nominating Committee and Member of the Audit Committee

Name	Age	Position
Richard Arnold	56	Director and Member of the Audit Committee, Compensation Committee and Nominating Committee
Kirsten Berg-Painter	44	Director and Member of the Compensation Committee and Nominating Committee
Michael J. Praisner	58	Director, Chairman of the Audit Committee and Member of the Compensation Committee and Nominating 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. 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. Previously, Mr. Gerber held a variety of management and consulting positions at American Express Company, a diversified worldwide travel, financial, and network services company, Deloitte Consulting, a global management consulting firm, and Digitas, Inc., an integrated marketing agency. Mr. Gerber is the founder of @once, Inc., a private email messaging company, and 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. Goldberg became the chief strategy officer of the Company in July 2004. As chief strategy officer, Mr. Goldberg is responsible for the Company s merger and acquisition activities and helps define the company s long-term intellectual property, product and corporate strategies. Mr. Goldberg previously served as vice president of corporate development since joining the Company in February 2004. From August 2001 to October 2003, Mr. Goldberg served as president and chief executive officer of Hiwire, Inc., a venture capital-funded Internet radio company, whose technology enabled over 400 North American radio stations to migrate content to the Internet. From November 1999 to October 2000, Mr. Goldberg served as senior vice president of the Consumer Division of Go2Net, Inc., a network of branded, technology- and community-driven Web sites. From June 1995 to October 1999, Mr. Goldberg was employed by Microsoft Corporation, a leading innovator in software and business technologies, as director of localization and the group manager of the company s advertising business unit. Mr. Goldberg holds a BA and master of science in management degrees from Columbia University.

Mr. Kitchen became the chief financial officer of the Company in July 2004. Mr. Kitchen most recently 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 the chief technology officer and a director of the Company in December 2003 following the Company s acquisition of Synchrologic, Inc. a provider of mobile infrastructure solutions. Mr. Mohammadioun joined Synchrologic in October 1996 as its chief executive officer. 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.

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 Pty. Ltd., 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 Pty. Ltd., a corporate advisor company. From 1977 to 1990, Mr. Arnold served in various capacities with Charles Schwab & Company, Inc., a securities and financial services brokerage, including as chief financial officer and later as executive vice president responsible for the company s strategy and corporate development unit. 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 Handelshøyskole in Bergen, Norway.

Mr. Praisner became a director of the Company in April 2001. Prior to his retirement, from April 1998 to October 1999, Mr. Praisner served as vice president of finance and administration and chief financial officer of Beyond.com Corporation, an online software resale company. From 1995 to 1997, Mr. Praisner served as vice president, finance and administration, chief financial officer, and secretary of Silicon Storage Technology, Inc., a supplier of flash memory devices. From 1994 to 1995, Mr. Praisner served as vice president, finance and chief financial officer of MicroModule Systems, Inc., a manufacturer of multichip modules for computer and telecommunications applications. From 1992 to 1993, Mr. Praisner served as vice president, finance and chief financial officer of Electronics for Imaging, Inc., a manufacturer of color desktop publishing computer systems. During part of 1991, Mr. Praisner served as vice president, finance and chief financial officer of Digital Link Corp., a computer communications equipment company. From 1989 to 1991, Mr. Praisner served as corporate controller of Applied Materials Inc., a manufacturer of semiconductor wafer fabrication equipment. He holds a BA degree in liberal arts and MBA degree from Southern Methodist University and is a Certified Public Accountant.

ITEM 2. PROPERTIES

At July 31, 2004, we leased the facilities described below:

Location	Function	Square Feet

			Lease Expiration Date
United States			
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
Greenwich, CT	Administrative offices and sales and marketing	4,276	January 2005
Alpharetta, GA	Administrative offices, engineering, professional services and sales and marketing	22,409	December 2004
Nashua, NH		19,938 (2)	December 2004
Salt Lake City, UT	Engineering	5,717	April 2006
Europe			
Sofia, Bulgaria	Engineering and professional services	15,200	April 2007
Cologne, Germany	Sales	2,754	June 2007
Cluj-Napoca, Romania	Engineering and professional services	8,611	June 2005
Reading, United Kingdom	Sales	1,429	August 2007
Asia-Pacific			
Canberra, Australia	Engineering	3,014	August 2008
Sydney, Australia	Administrative offices and sales and marketing	2,626	June 2006
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 leased property located in Salt Lake City, Utah was acquired upon the completion of the Spontaneous Technology s acquisition in September 2003. The leased property located in Alpharetta, Georgia was acquired upon the completion of the Synchrologic acquisition in December 2003. The leased properties in Greenwich, Connecticut, Reading, United Kingdom and Canberra and Sydney, Australia were acquired upon completion of the Search Software America acquisition in March 2004. 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, as well as in Nashua, New Hampshire, 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 other vacated offices because of the continuing deterioration of the real estate markets in those locations.

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

From time to time we may become subject to proceedings, lawsuits and other claims in the ordinary course of business, including proceedings related to our products, services, technologies and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

In August 2004, a patent-infringement claim was filed against us by NCR Corporation in the U.S. District Court for the Southern District of Ohio Western Division. In the complaint, NCR allege certain of our products infringe three of its patents which cover technology for synchronizing databases between personal digital assistants and host computers. Based on a lengthy review, we believe that we do not infringe on any of the asserted NCR patents. Separately, on September 9, 2004, we filed a petition complaint for declaratory judgment against NCR requesting, among other things, that a judgment be entered finding that we do not infringe an NCR patent asserted against one of our licensees, Garmin Ltd. 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 be in the future be involved in litigation that could result in significant costs to us.*

We are also subject to legal proceedings and claims that arise in the normal course of business. We believe that the ultimate resolution of such matters will not have a material adverse affect on our financial position or results of operations; however, such litigation could in the future result in substantial costs and diversion of management resources. Such litigation could also result in payment of monetary damages and could harm our financial condition and results of operations.

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, 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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, 2002, through July 31, 2004.

	High	Low
Fiscal 2003		
First fiscal quarter (August 1, 2002 to October 31, 2002)	$ 0.49	$ 0.22
Second fiscal quarter (November 1, 2002 to January 31, 2003)	$ 1.55	$ 0.36
Third fiscal quarter (February 1, 2003 to April 30, 2003)	$ 3.30	$ 1.13
Fourth fiscal quarter (May 1, 2003 to July 31, 2003)	$ 4.08	$ 2.31

	High	Low
Fiscal 2004		
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

As of September 15, 2004, there were approximately 471 stockholders of record of our common stock and 65,783,251 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 $2.18 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 2004 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.*

Recent Sales of Unregistered Securities

In March 2004, we completed the offering of $60,000,000 of convertible senior notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended, or the Securities Act. Proceeds of approximately $57,100,000, net of the initial purchasers discounts and commissions and estimated offering costs, were received from this offering. For more information regarding the terms of these convertible senior notes, refer to the discussion under the caption *Management s Discussion and Analysis of Financial Condition and Results of Operations Convertible Senior Notes.*

The offer and sale of securities in the transaction described above was deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act and Regulation D promulgated thereunder, as a transaction by an issuer not involving any public offering. The securities were resold by the initial purchasers upon reliance on Rule 144A. Each initial purchaser made representations that it was an accredited investor, as defined in Rule 501 promulgated under the Securities Act, and as to its compliance with Rule 144A.

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 2000 to 2004 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 2000 and 2001 and the balance sheets data at July 31, 2000, 2001 and 2002, was taken from these financial statements. Certain amounts in prior periods have been reclassified to conform to the current presentation.

This summary of consolidated financial statements includes the accounts of Intellisync and our wholly and majority 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 2004 include the effect of charges including $600,000 for facilities cost adjustment relating to restructuring actions implemented in 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 Synchrologic, Inc., and 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 litigation settlement gain of $1,576,000 was also recorded for 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 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.

The results of operations for fiscal year 2000 include charges of $6,322,000 for merger related expenses, $3,877,000 was incurred for accretion of redeemable convertible preferred stock and $2,002,000 for non-cash stock compensation expense incurred in connection with the acquisition of NetMind. An additional charge of $4,218,000 was incurred for purchased in-process research and development in connection with the acquisitions of ProxiNet, Inc.

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

	Year Ended July 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Revenue	$ 42,308	$ 24,860	$ 22,940	$ 38,202	$ 30,512
Net loss	$ (9,455)	$ (7,736)	$ (34,518)	$ (41,818)	$ (22,199)
Accretion of mandatorily redeemable convertible preferred stock to redemption value					(3,877)
Net loss attributable to common stockholders	$ (9,455)	$ (7,736)	$ (34,518)	$ (41,818)	$ (26,076)
Basic and diluted net loss per common share	$ (0.16)	$ (0.17)	$ (0.77)	$ (0.96)	$ (0.74)

Condensed Consolidated Balance Sheets Data (in thousands)

	July 31,				
	2004	**2003**	**2002**	**2001**	**2000**

	July 31,				
Cash, cash equivalents and short-term investments	$ 53,648	$ 27,159	$ 34,431	$ 48,908	$ 85,260
Working capital	$ 51,693	$ 25,173	$ 28,099	$ 44,489	$ 80,317
Total assets	$ 170,354	$ 41,167	$ 47,312	$ 78,934	$ 118,655
Long-term obligations	$ 61,074	$ 921	$ 1,991	$	$ 310
Total stockholders equity	$ 94,391	$ 31,796	$ 34,884	$ 68,192	$ 105,077

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

	Three Months Ended							
	July 31, 2004	**April 30, 2004**	**Jan 31, 2004**	**Oct 31, 2003**	**July 31, 2003**	**April 30, 2003**	**Jan 31, 2003**	**Oct 31, 2002**
Revenue	$ 13,282	$ 11,007	$ 10,003	$ 8,016	$ 7,304	$ 6,725	$ 5,821	$ 5,010
Cost of revenue	3,490	3,227	2,197	1,787	1,464	1,317	968	973
Gross profit	9,792	7,780	7,806	6,229	5,840	5,408	4,853	4,037
Operating expenses	11,148	11,396	11,148	8,509	7,755	6,950	5,691	5,536
Operating loss	$ (1,356)	$ (3,616)	$ (3,342)	$ (2,280)	$ (1,915)	$ (1,542)	$ (838)	$ (1,499)
Net loss	$ (1,758)	$ (2,184)	$ (3,252)	$ (2,261)	$ (1,800)	$ (3,813)	$ (747)	$ (1,376)
Basic and diluted net loss per common share	$ (0.03)	$ (0.03)	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.08)	$ (0.02)	$ (0.03)
Shares used in computing basic and diluted net loss per common share	64,070	63,859	54,475	48,266	47,071	46,106	45,764	45,383

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.

Management s discussion and analysis includes:

Business overview.

A discussion of estimates and assumptions affecting the application of our critical accounting policies.

A comparison of our results of operations for fiscal 2004 with the results for fiscal 2003, and the results for fiscal 2003 with those for fiscal 2002.

Recently issued accounting pronouncements.

A discussion of our liquidity and capital resources.

Business Overview

We develop, market and support desktop, enterprise and carrier-class synchronization software that enable consumers, business professionals and IT professionals to extend the capabilities of wireless or wireline personal communications platforms. Our products are designed to improve the productivity of business professionals who require access to essential, current information, anytime and anywhere.

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

We license our software products directly to corporations, wireless 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 120 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. We expect the acquisition of Spontaneous Technology, Inc., Synchrologic, Inc. and Search Software America Pty. Ltd., as well as transfer of employees from SoftVision SRL, along with the efforts of our management and employee, to aid in our growth and development, including in the wireless carrier markets. For details on the 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 wireless 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 wireless carriers will be under increasing competitive

pressure. As a result, we believe there will be significant opportunities to provide wireless 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 also plan to continue working on achieving operational and cost efficiencies. Our restructuring program during the third quarter of fiscal 2004 reflects our ongoing efforts to better align our costs structure with revenue performance.

We expect to continue to implement our business development strategy in fiscal 2005. 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.

Convertible Senior Notes

To implement our business strategy, we fund our acquisitions, research and development and general working capital primarily through cash flow from operations and recently through debt issuance. During the third quarter of fiscal 2004, we completed the offering of $60,000,000 of convertible senior notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Proceeds of approximately $57,100,000, net of the initial purchasers discounts and commissions and estimated offering costs, were received from the offering in March 2004. A portion of the net proceeds of the offering were used to complete the acquisition of SSA. We intend to use the balance of the net proceeds to fund possible investments in, or acquisitions of, complementary businesses, products or technologies or establishing joint ventures and for general corporate purposes and working capital requirements. We invested the net proceeds from this offering, pending their ultimate use, in short-term, interest-bearing, investment grade securities. For further details on the convertible senior notes, as well as the interest rate swaps we entered into in conjunction with the notes, refer to the discussion under the caption *3% Convertible Senior Notes* and *Interest Rate Swaps* set forth under Liquidity and Capital Resources below.

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. 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, and depreciation and amortization. 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. Labor hours incurred is 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 an is tested for impairment at least annually 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, 2004, 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 four to 10 years. Trademarks are amortized over the period of benefit of three years. Covenants not-to-compete, customer contracts and acquired workforce are amortized over the period of benefit, ranging from nine months to two 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 will be 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. 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, 2004, our goodwill amounted to $65,288,000. The annual impairment review for goodwill was completed on July 31, 2004, and did not identify any impairment. As of July 31, 2004, other intangibles amounted to $29,828,000, net of accumulated amortization. We expect to amortize approximately $8,386,000, $7,720,000, $6,777,000, $3,354,000 and $3,591,000 of our other intangibles in fiscal 2005, 2006, 2007, 2008 and thereafter, respectively, based on our acquisitions completed as of July 31, 2004. 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; any alternative future use or current technological feasibility; and the stage of completion. During fiscal 2004, 2003 and 2002, we expensed approximately $3,667,000, $406,000 and zero, 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.

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,		
	2004	**2003**	**2002**
Revenue:			
License	66.9%	77.1%	83.6%
Services	33.1	22.9	16.4
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Cost of license revenue	4.9	4.8	4.8
Cost of services revenue	14.0	11.7	24.0
Amortization of developed and core technology	6.4	2.5	7.4

	Years Ended July 31,		
Total cost of revenue	25.3	19.0	36.2
Gross profit	74.7	81.0	63.8
Operating expenses:			
Research and development	27.1	29.7	66.1
Sales and marketing	39.1	46.1	66.1
General and administrative	18.0	23.3	21.4
In-process research and development	8.7	1.6	
Amortization of goodwill			15.1
Amortization of other intangible assets	4.6	0.4	
Restructuring and other charges	2.2	3.2	24.4
Impairment of assets			22.9
Total operating expenses	99.7	104.3	216.0
Operating loss	(25.0)	(23.3)	(152.2)
Other income (expense)			
Interest income	1.5	3.3	6.3
Interest expense	(0.6)	(0.0)	(0.4)
Litigation settlement gain, net	3.7		
Other, net	(0.8)	(0.3)	(0.9)
Other-than-temporary impairment of investments		(9.6)	(1.7)
Total other income (expense)	3.8	(6.6)	3.3
Loss before income taxes	(21.2)	(29.9)	(148.9)
Provision for income taxes	(1.1)	(1.2)	(1.6)
Net loss	(22.3)%	(31.1)%	(150.5)%

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

We derive revenue from two primary sources: software licenses and fees for services. Our fourth quarter of fiscal 2004 reflected our seventh consecutive quarter of increase in revenue, primarily due from revenue contributions of Intellisync Mobile Suite, professional service and SSA products and technology, reflected in the

growth in the number of our technology licensing partners. These increases are largely the result of our recent acquisitions and, we believe, of increase in sales and marketing efforts, both domestically and internationally, and our emphasis on enhancing our product offerings. During the second half of fiscal 2004, our Intellisync Mobile Suite, Intellisync Handheld Edition, and Intellisync Phone Edition platforms have each added support for many new wireless devices or smartphones, the market for which we believe has experienced growth recently. We plan to continue to add wireless device support to our wide array of supported wired devices.

While the market for smartphones and other wireless mobile devices has been growing 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 has not increased as we would have liked during fiscal 2004.

As we look ahead to fiscal 2005, we are planning for further sequential growth in our quarterly revenue made possible by our new enterprise and technology licensing partners and further contributions from Intellisync Mobile Suite and identity system products. Our acquisitions of Synchrologic and SSA have strengthened and, we expect, to continue to strengthen our presence in Europe and Asia-Pacific.

Our acquisition of Starfish and asset purchase of Loudfire in fiscal 2003, as well as our recent acquisitions of Spontaneous Technology, Synchrologic and SSA in fiscal 2004 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 benefits over time through synergies in technology, product development and operations. Our recent acquisitions already have made positive contributions to revenue for fiscal 2004. We believe that new and existing products based upon the technologies from Starfish, Spontaneous Technology, Synchrologic and SSA will continue to have a positive impact on revenues, provide operational benefits and improve our bottom line in fiscal 2005.

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%

License revenue is earned from the sale and use of software products (including our technology licensing components) and royalty agreements with OEMs. The increase in absolute license revenue for fiscal 2004 as compared with that for fiscal 2003 reflected an increase of $4,726,000 in revenue from technology licensing components and an increase of $4,397,000 in revenue from enterprise. A significant portion of the increase in our license revenue for fiscal 2004 was contributed by Synchrologic and SSA. 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
	(In thousands, except percentage)		
Services revenue	$14,016	146.3%	$5,691
As percentage of total revenue	33.1%		22.9%

Services revenue is derived from fees for services, including fixed-price and time-and-materials professional services arrangements and amortization of maintenance contract programs. 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. In any period, services 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.

Enterprise and Retail Products

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Enterprise and retail products revenue	$22,764	76.5%	$12,897
As percentage of total revenue	53.8%		51.9%

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. Enterprise and retail products include Intellisync Handheld Edition, Intellisync Handheld Edition for Enterprise (formerly Enterprise Intellisync), Intellisync Phone Edition, Intellisync Mobile Suite (formerly Synchrologic Mobile Suite), and SSA s Identity Systems, as well as related support and maintenance. 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 in our royalty-based technology licensing business. In addition, while enterprise sales generally result in ongoing maintenance revenues and may lead to follow-on purchases or upgrades, we are typically dependent on sales to new customers for the significant portion of our enterprise revenues in a given quarter.

The increase in enterprise and retail products revenue for fiscal 2004 resulted from contributions of $7,951,000 from SSA and Synchrologic products, an increase of $3,500,000 in revenue from amortization of support and maintenance, and an increase of $790,000 in retail sales of our Intellisync software. This increase for fiscal 2004 was slightly offset by a $2,374,000 decrease in revenue from Intellisync Handheld Edition for Enterprise. Less emphasis on marketing of Intellisync Handheld Edition for Enterprise and Intellisync MobileApp Designer, 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 and Intellisync MobileApp Designer. We expect revenue in absolute dollars from enterprise and retail products, particularly enterprise, to further improve in the following few quarters which we believe will be driven by contributions from Intellisync Mobile Suite acquired from Synchrologic and Identity Systems acquired from SSA. In addition, we expect revenue from this support for wireless devices to offset the impact of the lower wired or traditional PDA sales on our retail revenue which would otherwise decline.

Technology Licensing Components

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Technology licensing components revenue	$19,544	63.4%	$11,963
As percentage of total revenue	46.2%		48.1%

Technology licensing components include various licensed technology platforms, including Intellisync Software Development Platform, Intellisync for the Web, Intellisync SyncML Server (formerly TrueSync), Intellisync Server-to-Server, professional services, non-recurring engineering services and related maintenance contract programs. The increase in technology licensing revenue for fiscal 2004 as compared with that for fiscal 2003 resulted from an increase of $4,726,000 in Intellisync Software Development Platform revenue, an increase of $2,855,000 in professional services and hosting services revenue. The decrease in technology licensing revenue for fiscal 2004 as a percentage of revenue was due to a larger increase in revenue from enterprise and retail products.

We expect revenue from technology licensing components for the first quarter of fiscal 2005 to equal or exceed levels reached in the most recent quarters of fiscal 2004.

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%

International revenue continues to represent a significant portion of our revenue. 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, is primarily due to increased revenue from our newer offerings in the United States. We expect our recent acquisitions of Synchrologic and SSA will further strengthen our presence in Asia-Pacific, as well as Europe. 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 *Risk Factors* set forth above. We believe that continued growth would require further expansion in international markets. We have utilized, and may 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 for fiscal 2004. Products sold through Ingram Micro US, a distributor, accounted for less than 10% of our total revenue for fiscal 2004 and 10% of our total revenue for fiscal 2003. 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 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. Service costs comprise personnel-related expenses such as salaries and other related costs associated with work performed under professional service contracts, non-recurring engineering agreements, post-sales customer support costs and hosting costs for hosting services associated with 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,		
	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%

The increase in cost of services revenue in absolute dollars reflected the increase in professional services costs as a result of the Starfish acquisition in the second half of fiscal 2003 and Spontaneous Technology, Synchrologic and SSA 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 SSA.

We expect our cost of revenue, exclusive of stock compensation charges and amortization of purchased technology, in the next quarter to increase slightly relative to that of the fourth quarter of fiscal 2004 due in part to the impact of further increase in our total revenue and additional costs in support of our hosting revenue. 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 services revenues as well as the expected mix between products and channels.

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. 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 four to seven years. The increase in the amortization of developed and core technology for fiscal 2004 was primarily due to the impact of recently developed and core technology from Starfish, Loudfire,

Spontaneous Technology, Synchrologic and SSA. Based on acquisitions completed as of July 31, 2004, we expect the future amortization expense of developed and core technology is as follows (in thousands):

Fiscal year ending July 31,	
2005	$ 4,480
2006	4,257
2007	4,055
2008	1,866
2009	616
Thereafter	593
	$15,867

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,		
	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%

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 aiming their efforts at expanding focus from cabled synchronization to synchronization for wireless handhelds, smartphones, laptops and tablets, at extending our core synchronization technology to increase scalability and extensibility, and at supporting next generation wireless technology and device platforms. 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 SSA 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 consist primarily of salaries, commissions, promotional expenses and other costs relating to sales and marketing employees, as well as 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 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 have also acquired 22 new sales and marketing employees from Synchrologic during the second quarter of fiscal 2004 and 11 from SSA. Sales and marketing expenses decreased as a percentage of revenue due to an increase in our total revenue. 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 these expenses will continue to increase as we grow.

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%

General and administrative expenses consist primarily of salaries and other costs relating to administrative, executive and financial personnel and outside professional fees. 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 recent acquisitions of Synchrologic and SSA. General and administrative expenses decreased as a percentage of revenue due to an increase in our total revenue.

Depending on the degree of the fluctuation of our stock price in the future, we may incur a significant variable accounting charge or a recovery of charges from prior quarters associated with certain employee stock options. The charge or the recovery may increase or decrease our total general and administrative costs in the next few quarters. The charge or the recovery may also further increase or offset our expected total cost of revenue, research and development and sales and marketing costs in the near future.

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 recent acquisitions (Spontaneous Technology, Synchrologic, and SSA) 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 SSA, respectively.

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 are as follows (in thousands):

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: $125,000
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: $3,000,000
Risk-adjusted discount rate: 22%
First period expected revenue: calendar year 2004

Search Software America

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: $600,000
Risk-adjusted discount rate: 25%
First period expected revenue: June 2005

The development of 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, and SSA, there have 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.

In the third quarter of fiscal 2003 we recorded a charge of $406,000 for in-process research and development associated with the acquisition of Starfish. For details on Starfish in-process research and development charge, refer to the discussion under the caption *Fiscal Year Ended July 31, 2003 as Compared to Fiscal Year Ended July 31, 2002* 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,		
	2004	**Percent Change**	**2003**
	(In thousands, except percentage)		
Amortization of other intangible assets	$ 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.

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 2004 was primarily due to the impact of recently acquired intangibles from Starfish, Loudfire, Spontaneous Technology, Synchrologic and SSA. Based on acquisitions completed as of July 31, 2004, we expect the future amortization expense of other intangible assets is as follows (in thousands):

Fiscal year ending July 31,	
2005	$ 3,906
2006	3,463
2007	2,722

2008	1,488
2009	746
Thereafter	1,636
	$13,961

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,		
	2004	**Percent Change**	**2003**
	(In thousands, except percentage)		
Restructuring charges:			
Severance costs	$253		$257
Facilities costs	600		159
Restructuring charges	853		416
Other charges:			
Costs relating to a ceased acquisition	76		379
Restructuring and other charges	$929	16.9%	$795
As percentage of total revenue	2.2%		3.2%

Restructuring Charges and Accrual. During fiscal 2004 and 2003, 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 the third quarter of 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, 2004.

During the second quarter of 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.

In fiscal 2003, we incurred approximately $257,000 for severance and separation costs relating to recent termination of 19 of our engineering and product management employees. We also incurred a charge of

approximately $159,000 for a revised estimated lease exit cost due to additional time required to sublease the facilities. This revision was attributable to the high vacancy rates in the corporate real estate market in Northern California.

Inherent in the estimation of the costs related to our restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. In determining the excess facilities exit costs, we were required to estimate future sublease income, negotiated lease settlement costs, future net operating expenses of the facilities, and brokerage commissions, among other expenses. These estimates, along with other estimates made by management in connection with restructuring, may vary significantly depending, in part, on factors that may be beyond our control. Specifically, these estimates will depend on our success in negotiating with lessors, the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases. Adjustments to the reserve for the consolidation of excess facilities will be required if actual lease exit costs or sublease income differ from amounts currently expected.

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
Balance at July 31, 2002	$ 43	$ 3,076	$ 3,119
Restructuring provision	257		257
Adjustment		159	159
Cash payments	(300)	(1,469)	(1,769)
Balance at July 31, 2003	$	$ 1,766	$ 1,766
Restructuring provision	253	250	503
Adjustment		350	350
Cash payments	(253)	(1,286)	(1,539)
Balance at July 31, 2004	$	$ 1,080	$ 1,080

The remaining unpaid amount as of July 31, 2004 of $1,080,000 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.

The current and long-term portions of the restructuring accrual of $820,000 and $260,000 are classified as Accrued Liabilities and Other Liabilities, respectively, in the consolidated balance sheet as of July 31, 2004.

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 2003 and 2004. We expect the cost savings, particularly in facility-related costs, brought about by these restructurings to continue for fiscal 2005. Future savings are anticipated to include approximately $1,900,000, primarily in operating expenses each year for the next few years from our fiscal 2004 workforce reduction and $700,000 and $250,000 in fiscal 2005 and 2006, respectively, in facility-related expenditures.

Costs Relating To Ceased Acquisition. During fiscal 2004 and 2003, we incurred residual costs of approximately $76,000 and $379,000 for operating expenses, mainly legal and accounting, relating to an acquisition that we ceased pursuing.

Interest Income

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Interest income	$620	(23.6)%	$811
As percentage of total revenue	1.5%		3.3%

Interest income represents interest earned on cash and short-term investments and realized gains on miscellaneous investments. The decrease in net interest income for fiscal 2004 was due to lower rate of interest on reduced balances of cash and investments, particularly during the first two quarters of fiscal 2004.

Interest Expense

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Interest expense	$(249)	(3012.5)%	$(8)
As percentage of total revenue	(0.6)%		%

Interest expense for fiscal 2004 reflects interest charge associated with the convertible senior notes we issued in March 2004.

Litigation Settlement Gain, Net

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Litigation settlement gain, net	$1,576	N/A	$
As percentage of total revenue	3.7%		%

The gain of $1,576,000, net of $424,000 related expenses incurred, in the third quarter of fiscal 2004 resulted from the settlement of litigation against Extended Systems.

Other, Net

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Other, net	$(327)	403.1%	$ (65)
As percentage of total revenue	(0.8)%		(0.3)%

Other, net, represents miscellaneous bank fees and charges, realized gain or loss on foreign exchange and investments and amortization of debt issuance costs. Other, net, for fiscal 2004 reflects $242,000 of debt issuance costs amortization expense associated with the convertible senior notes we issued in March 2004 and $87,000 of bank charges and investment management fees, net realized gain on foreign exchange and other expenses. Other, net for fiscal 2003 reflects mainly bank charges and investment management fees.

Other-Than-Temporary Impairment of Investments

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Other-than-temporary impairment of investments	$	N/A	$ (2,394)
As percentage of total revenue	%		(9.6)%

During fiscal 2003, we disposed our limited partnership interest in Azure Venture Partners, LLP, a venture capital fund. The disposal of the interest allowed us to avoid commitments for further investments in equity instruments of various privately-held companies made through Azure, many of which had not generated adequate returns. In addition, the disposal was in line with our strategy of focusing resources and efforts more on our core operations. Consequently, we recorded an other-than-temporary impairment charge of $2,394,000. Total proceeds of $75,000 from the sale of the interest were received in May 2003, which approximated the carrying value of the investment after the writedown.

Provision for Income Taxes

	Year Ended July 31,		
	2004	Percent Change	2003
	(In thousands, except percentage)		
Provision for income taxes	$ (481		