

BSQUARE CORP /WA
Form 10-Q
August 12, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 000-27687

BSQUARE CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: BSQUARE CORP /WA - Form 10-Q

Washington (State or other jurisdiction of incorporation or organization)	91-1650880 (I.R.S. Employer Identification No.)
110 110th Avenue NE, Suite 200, Bellevue WA (Address of principal executive offices)	98004 (Zip Code)
(425) 519-5900 (Registrant's telephone number, including area code)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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

The number of shares of common stock outstanding as of July 31, 2010: 10,231,645

Table of Contents

BSQUARE CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 2010

TABLE OF CONTENTS

		Page
 PART I. FINANCIAL INFORMATION		
Item 1	<u>Financial Statements</u>	3
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4	<u>Controls and Procedures</u>	22
 PART II. OTHER INFORMATION		
Item 1A	<u>Risk Factors</u>	22
Item 6	<u>Exhibits</u>	23
<u>EXHIBIT 10.10(b)</u>		
<u>EXHIBIT 10.18(a)</u>		
<u>EXHIBIT 10.18(b)</u>		
<u>EXHIBIT 31.1</u>		
<u>EXHIBIT 31.2</u>		
<u>EXHIBIT 32.1</u>		
<u>EXHIBIT 32.2</u>		

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****BSQUARE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,477	\$ 12,918
Short-term investments	7,996	
Accounts receivable, net of allowance for doubtful accounts of \$207 at June 30, 2010 and \$201 at December 31, 2009	16,781	9,192
Prepaid expenses and other current assets	493	648
Total current assets	32,747	22,758
Long-term investments	843	4,189
Restricted cash	875	900
Equipment, furniture and leasehold improvements, net	676	823
Intangible assets, net	1,256	1,511
Other non-current assets	83	90
Total assets	\$ 36,480	\$ 30,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,124	\$ 2,898
Other accrued expenses	6,035	4,058
Accrued compensation	2,091	1,837
Deferred revenue	4,344	3,693
Total current liabilities	17,594	12,486
Deferred rent	276	311
Shareholders' equity:		
Preferred stock, no par value: 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, no par value: 37,500,000 shares authorized; 10,216,799 shares issued and outstanding at June 30, 2010 and 10,162,589 shares issued and outstanding at December 31, 2009	123,886	123,572
Accumulated other comprehensive loss	(457)	(746)
Accumulated deficit	(104,819)	(105,352)
Total shareholders' equity	18,610	17,474
Total liabilities and shareholders' equity	\$ 36,480	\$ 30,271

See notes to condensed consolidated financial statements.

Table of Contents**BSQUARE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share amounts) (Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue:				
Software	\$ 17,246	\$ 7,825	\$ 29,258	\$ 16,123
Service	9,659	8,289	14,592	16,668
Total revenue	26,905	16,114	43,850	32,791
Cost of revenue:				
Software	14,032	5,730	23,677	12,037
Service ⁽¹⁾	5,097	5,979	11,215	11,917
Total cost of revenue	19,129	11,709	34,892	23,954
Gross profit	7,776	4,405	8,958	8,837
Operating expenses:				
Selling, general and administrative ⁽¹⁾	2,981	3,100	6,117	6,395
Research and development ⁽¹⁾	802	921	1,709	2,302
Total operating expenses	3,783	4,021	7,826	8,697
Income from operations	3,993	384	1,132	140
Other income (expense)	(5)	(10)	(493)	104
Income before income taxes	3,988	374	639	244
Income tax benefit (expense)	(15)	(26)	(106)	14
Net income	\$ 3,973	\$ 348	\$ 533	\$ 258
Basic income per share	\$ 0.39	\$ 0.03	\$ 0.05	\$ 0.03
Diluted income per share	\$ 0.39	\$ 0.03	\$ 0.05	\$ 0.03
Shares used in calculation of income per share:				
Basic	10,157	10,110	10,142	10,098
Diluted	10,287	10,191	10,268	10,214

(1) Includes the following amounts related to stock-based compensation expense:

Cost of revenue service	\$ 46	\$ 68	\$ 119	\$ 142
Selling, general and administrative	62	128	140	282
Research and development	10	14	19	13
Total stock-based compensation expense	\$ 118	\$ 210	\$ 278	\$ 437

See notes to condensed consolidated financial statements.

Table of Contents**BSQUARE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands) (Unaudited)**

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 533	\$ 258
Adjustments to reconcile net income to net cash used in operating activities:		
Realized loss on investments	546	
Depreciation and amortization	475	483
Stock-based compensation	278	437
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,586)	(3,577)
Prepaid expenses and other assets	163	144
Accounts payable and accrued liabilities	4,457	301
Deferred revenue	650	361
Deferred rent	(35)	14
Net cash used in operating activities	(519)	(1,579)
Cash flows from investing activities:		
Purchases of equipment and furniture	(72)	(100)
Capitalized costs associated with TestQuest acquisition		(43)
Proceeds from maturities of marketable securities	1,000	
Proceeds from sale of auction rate securities	516	175
Purchases of marketable securities	(6,404)	
Other	25	
Net cash provided by (used in) investing activities	(4,935)	32
Cash flows from financing activities - proceeds from exercise of stock options	36	8
Net cash provided by financing activities	36	8
Effect of exchange rate changes on cash	(23)	46
Net decrease in cash and cash equivalents	(5,441)	(1,493)
Cash and cash equivalents, beginning of period	12,918	7,703
Cash and cash equivalents, end of period	\$ 7,477	\$ 6,210

See notes to condensed consolidated financial statements.

Table of Contents

BSQUARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by BSQUARE Corporation (**BSQUARE**), a Washington corporation, and its subsidiaries (collectively, **the Company**), pursuant to the rules and regulations of the Securities and Exchan