SCM MICROSYSTEMS INC
Form 10-Q
November 16, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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: 0-29440

SCM MICROSYSTEMS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**77-0444317**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

1900 Carnegie Avenue, Building B
Santa Ana, California 92705
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES INCLUDING ZIP CODE)
(949) 250-8888
(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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 o No o

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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

At November 9, 2009, 25,134,985 shares of common stock were outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

SCM MICROSYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net revenue	$ 13,334	$ 6,393	$ 29,450	$ 19,377
Cost of revenue	6,940	3,483	15,371	10,961
Gross profit	6,394	2,910	14,079	8,416
Operating expenses:				
Research and development	1,518	980	3,776	3,058
Selling and marketing	4,653	2,280	10,635	7,010
General and administrative	2,978	1,697	7,665	4,718
Gain on sale of assets	(1,168)		(1,417)	
Total operating expenses	7,981	4,957	20,659	14,786
Loss from operations	(1,587)	(2,047)	(6,580)	(6,370)
Loss on equity investments	(225)		(795)	
Interest and other income (expense), net	(71)	(1,117)	(5)	(293)
Loss from continuing operations before income taxes	(1,883)	(3,164)	(7,380)	(6,663)
Benefit (provision) for income taxes	(434)	(103)	1,307	(151)
Loss from continuing operations	(2,317)	(3,267)	(6,073)	(6,814)
Gain from discontinued operations, net of income taxes	39	424	190	273
Gain on sale of discontinued operations, net of income taxes	41	44	115	553
Net loss	$ (2,237)	$ (2,799)	$ (5,768)	$ (5,988)
Basic and diluted loss per share from continuing operations	$ (0.09)	$ (0.21)	$ (0.29)	$ (0.43)
Basic and diluted income per share from discontinued operations	$ 0.00	$ 0.03	$ 0.01	$ 0.05
Basic and diluted net loss per share	$ (0.09)	$ (0.18)	$ (0.28)	$ (0.38)
Shares used to compute basic and diluted income (loss) per share	25,135	15,744	20,972	15,743

Comprehensive loss:				
Net loss	$ (2,237)	$ (2,799)	$ (5,768)	$ (5,988)
Unrealized gain on investments				28
Foreign currency translation adjustment	173	(24)	(244)	(203)
Total comprehensive loss	$ (2,064)	$ (2,823)	$ (6,012)	$ (6,163)

See notes to condensed consolidated financial statements.

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SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,162	$ 20,550
Accounts receivable, net of allowances of $505 and $689 as of September 30, 2009 and December 31, 2008, respectively	9,083	8,665
Inventories	6,587	5,065
Income taxes receivable	890	
Other current assets	1,771	1,139
Total current assets	24,493	35,419
Equity investments	1,449	2,244
Property and equipment, net	573	1,236
Intangible assets, net	22,738	307
Goodwill	21,895	
Other assets	1,048	1,932
Total assets	$ 72,196	$ 41,138
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 5,207	$ 3,555
Liability to related parties	1,029	
Accrued compensation and related benefits	1,847	1,763
Accrued restructuring and other charges	1,171	1,576
Accrued professional fees	1,457	1,419
Accrued royalties	551	475
Accrued sales tax related expenses	347	330
Other accrued expenses	1,999	1,959
Income taxes payable	440	411
Total current liabilities	14,048	11,488
Long-term liability to related parties	7,959	
Deferred tax liability	3,585	1,340
Long-term income taxes payable	503	184
Commitments and contingencies (see Notes 10 and 11)		
Stockholders equity:		
Common stock, $0.001 par value: 40,000 shares authorized; 25,753 and 16,362 shares issued and 25,135 and 15,744 shares outstanding as of September 30, 2009 and December 31, 2008, respectively	26	16
Additional paid-in capital	253,765	229,788

Treasury stock, 618 shares		(2,777)		(2,777)
Accumulated deficit		(207,967)		(202,199)
Accumulated other comprehensive income		3,054		3,298
Total stockholders equity		46,101		28,126
Total liabilities and stockholders equity	$	72,196	$	41,138

See notes to condensed consolidated financial statements.

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SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities:		
Net loss	$ (5,768)	$ (5,988)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from discontinued operations	(305)	(826)
Deferred income taxes	(1,986)	(2)
Depreciation and amortization	711	216
Gain on disposal of property and equipment	(1,264)	
Stock compensation expense	203	242
Loss on equity investments	795	
Changes in operating assets and liabilities:		
Accounts receivable	2,582	2,004
Inventories	383	(1,704)
Other assets	104	(352)
Income taxes receivable	194	
Accounts payable	(283)	(381)
Accounts payable to related parties	71	
Accrued expenses	(211)	283
Other Liabilities	(76)	
Income taxes payable	125	(47)
Net cash used in operating activities from continuing operations	(4,725)	(6,555)
Net cash used in operating activities from discontinued operations	(128)	(350)
Net cash used in operating activities	(4,853)	(6,905)
Cash flows from investing activities:		
Capital expenditures	(271)	(534)
Cash paid for Hirsch acquisition	(14,167)	
Cash acquired in HIRSCH acquisition	3,275	
Proceeds from sale of assets, net	2,087	
Maturities of short-term investments		13,873
Net cash provided by (used in) investing activities	(9,076)	13,339
Cash flows from financing activities:		
Proceeds from issuance of equity securities		18

Net cash provided by financing activities		18
Effect of exchange rates on cash and cash equivalents	(459)	(32)
Net increase (decrease) in cash and cash equivalents	(14,388)	6,420
Cash and cash equivalents at beginning of period	20,550	18,600
Cash and cash equivalents at end of period	$ 6,162	$ 25,020
Supplemental disclosures of cash flow information cash paid for:		
Income taxes	$ 246	$ 175

See notes to condensed consolidated financial statements.

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SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of SCM Microsystems, Inc. s (SCM or the Company) financial position, results of operations and cash flows have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any future period. For further information, refer to the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The preparation of unaudited condensed consolidated financial statements necessarily requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented.

On April 30, 2009, SCM acquired Hirsch Electronics Corporation (Hirsch), a privately-held California corporation that designs, engineers, manufactures and markets software, hardware and services in the security management system/physical access control market. The results for the acquired Hirsch business are included in the Company s consolidated statements of operations since the April 30, 2009 acquisition. As a result of the timing of this acquisition, the Company s condensed consolidated results for the periods presented are not directly comparable.

Discontinued Operations

During 2006, the Company completed the sale of substantially all the assets and some of the liabilities associated with its Digital Television solutions (DTV solutions) business. During 2003, the Company completed two transactions to sell its retail Digital Media and Video business.

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360-10, *Property, Plant and Equipment* (ASC 360-10), for the periods ended September 30, 2009 and 2008, these businesses have been presented as discontinued operations in the condensed consolidated statements of operations and cash flows and all prior periods have been reclassified to conform to this presentation. See Note 4 for further discussion of these transactions.

Recent Accounting Pronouncements and Accounting Changes

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162,* (SFAS 168). SFAS 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of SFAS 168 and the Codification does not change GAAP. SFAS 168 became effective for SCM for the period ending September 30, 2009. Management has determined that the adoption of SFAS 168 does not have an impact on the Company s financial statements.

On January 1, 2009, SCM adopted ASC Topic 805-10, *Business Combinations* (ASC 805-10). Under ASC 805-10, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement

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period be included in income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of ASC 805-10 changes the Company s accounting treatment for business combinations on a prospective basis.

On January 1, 2009, SCM adopted ASC Topic 810-10, *Consolidation* (ASC 810-10). ASC 810-10 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. ASC 810-10 is effective for SCM on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2009. As of September 30, 2009, SCM did not have any minority interests.

SCM adopted ASC Topic 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis, on January 1, 2009 and adopted ASC 820-10, as it relates to all financial assets and financial liabilities and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually), on January 1, 2008. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. ASC 820-10 does not change the accounting for those instruments that were, under previous GAAP, accounted for at cost or contract value. The adoption of ASC 820-10 did not have a significant impact on the Company s consolidated financial statements.

ASC 820-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable objective inputs and minimize the use of unobservable inputs, which require additional reliance on the Company s judgment, when measuring fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets; and

Level 3 Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The Company uses the following classifications to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified:

Cash equivalents include highly liquid debt investments (money market fund deposits, commercial paper and treasury bills) with maturities of three months or less at the date of acquisition. These financial instruments are classified in Level 1 of the fair value hierarchy.

Short-term investments consist of corporate notes and United States government agency instruments and are classified as available-for-sale. These financial instruments are classified in Level 1 of the fair value hierarchy. As of September 30, 2009, the Company had no short-term investments.

Assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of September 30, 2009 and December 31, 2008 were as follows (in thousands):

	September 30, 2009				**December 31, 2008**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund deposits	$1,927	$	$	$1,927	$9,426	$	$	$9,426

Non-financial assets that are measured and recognized at fair value on a non-recurring basis as of September 30, 2009 are as follows (in thousands); none existed as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Goodwill	$	$	$ 21,895	$ 21,895
Acquired intangibles Hirsch Acquisition			22,333	22,333
Total:	$	$	$ 44,228	$ 44,228

The valuation of the acquired intangible assets is classified as a Level 3 measurement, because it was based on significant unobservable inputs and involved management judgment and assumptions about market participants and pricing. In determining fair value of the acquired intangible assets, the Company determined the appropriate unit of measure, the exit market and the highest and best use for the assets, as per ASC 820-10. The fair value of acquired trade names and existing technology was determined using relief from royalty approach and the fair value of the acquired company s customer relationships was determined excess earnings approach. See Note 2 for discussion of this acquisition. The discount rate used in the valuation of the intangible assets was derived from a weighted average cost of capital analysis.

As of September 30, 2009 and December 31, 2008, there were no liabilities that are measured and recognized at fair value on a recurring basis.

2. Acquisition of Hirsch Electronics

In accordance with the Agreement and Plan of Merger entered into on December 10, 2008 (the Merger Agreement), by and among SCM, Hirsch and two wholly-owned subsidiaries of SCM, on April 30, 2009 (the closing date or the acquisition date) SCM acquired Hirsch through a two-step merger, pursuant to which Hirsch became Hirsch Electronics LLC, a Delaware limited liability company and a wholly-owned subsidiary of SCM (the acquisition).

Hirsch sells its products and services in many countries worldwide, through dealers and systems integrators. The majority of sales are in the United States, followed by Europe and Asia. Hirsch products are sold in every major industry segment, with the highest number of sales occurring in market segments requiring a higher-than-average level of security effectiveness, such as government, critical infrastructure, banking, healthcare and education.

In exchange for all of the outstanding capital stock of Hirsch, SCM paid approximately $14.2 million in cash, issued approximately 9.4 million shares of SCM common stock, and issued warrants to purchase approximately 4.7 million shares of SCM common stock at an exercise price of $3.00 with a five-year term, exercisable for two years following the third anniversary of the closing date. In addition, each warrant to purchase shares of Hirsch common stock outstanding immediately prior to the effective date of the acquisition was converted into a warrant to purchase the number of shares of SCM common stock equal to the number of shares of Hirsch common stock that could have been purchased upon the full exercise of such warrants, multiplied by the conversion ratio of 3.307888, rounded down to the nearest whole share. The per share exercise price for each converted warrant to purchase SCM common stock was determined by dividing the per share exercise price of the Hirsch common stock subject to each warrant as in effect immediately prior to the effective date of the acquisition by the conversion ratio, and rounding that result up to the nearest cent. The conversion ratio was obtained by dividing the estimated aggregate value of the acquisition consideration per share of Hirsch common stock, by the 30-day volume weighted average price of SCM s common stock (as reported on the NASDAQ Stock Market during the 30 days preceding the day prior to the day of the effective date of the acquisition).

After giving effect to the acquisition of Hirsch, former Hirsch shareholders beneficially own approximately 37% of the shares of SCM common stock outstanding. Lawrence Midland, a former Hirsch director and President of the Hirsch subsidiary, joined SCM s Board of Directors on May 1, 2009 and also became an executive officer of SCM. Douglas Morgan, a former director of Hirsch, also joined the Board of Directors of SCM immediately following the acquisition. Other than the addition of Mr. Midland, SCM s executive staff remained unchanged as a result of the acquisition.

The acquisition is accounted for under the acquisition method of accounting under ASC 805-10. Under this method of accounting, the total purchase consideration is measured at fair value as of the acquisition date when control is obtained, which for the acquisition of Hirsch was determined to be April 30, 2009. SCM has obtained a third-party valuation report to calculate the fair value of the consideration transferred and to measure the identifiable intangible assets acquired and liabilities to related parties assumed. The total purchase consideration was determined to be $38.0 million as of the acquisition date. The following table summarizes the consideration paid for Hirsch and the amounts of the assets acquired and liabilities assumed at the

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acquisition date. The fair value of the shares of SCM common stock issued in connection with the acquisition was determined using the closing price of SCM s common stock as of the acquisition date of $2.37 per share.

Fair value of consideration transferred (in thousands):

Cash paid for Hirsch common stock	$ 14,167
Fair value of common stock issued	22,258
Fair value of warrants issued	1,327
Fair value of warrants converted	200
Total purchase consideration	$ 37,952

Purchase price allocation as of April 30, 2009 (in thousands):

Cash and cash equivalents	$ 3,275
Accounts receivable, net	2,832
Inventories	1,649
Other assets	437
Deferred income taxes and taxes receivable	1,085
Property and equipment	262
Amortizable intangible assets:	
Developed technology	4,600
Customer relationships	10,350
Intangible assets with indefinite lives (unamortizable):	
Trade names	7,800
Accounts payable	(1,814)
Accrued expenses	(467)
Other liabilities	(192)
Deferred tax liabilities and taxes payable	(1,957)
Deferred tax liabilities in connection with acquired tangibles assets with indefinite lives	(3,003)
Fair value of liabilities assumed to related parties	(8,800)
Goodwill	21,895
Total purchase consideration	$ 37,952

As the Company finalizes certain valuation assumptions, adjustments may be recorded in the related purchase price allocation. There were no changes during the third quarter of 2009.

The identified intangible assets of $22.8 million consist of core technology, trade names and customer relationships. Developed technology relates to Hirsch s current products. Customer relationships relate to Hirsch s ability to sell existing, in-process and future versions of its products to its existing customers. Trade names represent future value to be derived associated with the use of existing trade names. SCM expects to amortize developed technology and customer relationships on a straight-line basis over their expected useful life of 15 years. Assumed liabilities to related parties are estimated based on contractual payments to be made in future periods through 2020. The Company has estimated the acquisition date fair value of this liability to be $8.8 million, based on a discounted cash flow valuation technique.

Of the total purchase consideration, $21.9 million was recognized as goodwill. Goodwill represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net assets and liabilities. The goodwill arising from the acquisition is largely attributable to the synergies expected to be realized after the Company s acquisition and integration of Hirsch. Hirsch s results are included in the Company s reportable segment, Security and Identity Solutions (formerly called Secure Authentication). None of the goodwill recorded as part of the Hirsch acquisition will be deductible for United States federal income tax purposes.

Deferred tax assets and liabilities resulting from the acquisition of Hirsch have been netted, where applicable. As the identified intangible asset trade names has an indefinite life, the deferred tax liability of $3.0 million relating to the value of the trade names can not be offset with deferred tax assets with a definite life. Resulting from these procedures, deferred tax liabilities of $1.7 million after netting with deferred tax assets and $3.0 million deferred tax liabilities relating to the indefinite life intangible asset have been considered in the purchase price allocation.

Following the acquisition, Hirsch Electronics LLC has become part of the U.S. tax group of the SCM entities. Accordingly, the deferred tax liability of $1.7 million, as described above, has been netted with SCM s existing deferred tax assets. The carrying value of SCM s net deferred tax assets reflects that the Company has been unable to generate sufficient taxable income in certain tax jurisdictions. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before SCM is able to realize their benefit, or that future deductibility is uncertain. As a result of netting the deferred tax liability of $1.7 million with SCM s existing deferred tax assets, there is a $1.7 million release of SCM s valuation allowance. In accordance with ASC 805-10, the release of the valuation allowance was booked as a tax benefit in the 2009 second quarter financial statements.

Management evaluates the realizability of the deferred tax assets quarterly. At September 30, 2009, SCM has recorded valuation allowances against all of its net deferred tax assets. The deferred tax assets are still available for SCM to use in the future to offset taxable income, which would result in the recognition of a tax benefit and a reduction in the effective tax rate. Actual operating results and the underlying amount and category of income in future years could render SCM s current assumptions, judgments and estimates of the realizability of deferred tax assets inaccurate, which could have a material impact on the Company s financial position or results of operations.

Pro forma financial information:

The results for the acquired Hirsch business are included in the Company s consolidated statements of operations since the April 30, 2009 date of acquisition. As a result of the timing of this acquisition, the Company s condensed consolidated results for the periods presented are not directly comparable. The pro forma financial information is presented for informational purposes only and is not intended to represent or be indicative of the results of operations that would have been achieved if the acquisition had been completed as of the date indicated, and should not be taken as representative of future consolidated results of operations or financial condition of SCM. The unaudited pro forma financial information in the table below summarizes the combined results of operations of SCM and Hirsch, as though the acquisition had occurred as of the beginning of the periods presented. Preparation of the pro forma financial information for all periods presented required management to make certain judgments and estimates to determine the pro forma adjustments such as purchase accounting adjustments, which include, among others, cost of sales resulted from step up of inventory at fair value, amortization charges from acquired intangible assets, and income tax effects.

Pro forma results of operations for the three and nine months ended September 30, 2009 and 2008 are as follows (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues	$ 13,334	$ 12,571	$ 36,110	$ 37,126
Net loss	(2,237)	(4,321)	(8,646)	(8,659)
Weighted average common shares outstanding used in loss per common share basic and diluted	25,135	25,135	25,135	25,134
Net loss per common share basic and diluted	$ (0.09)	$ (0.17)	$ (0.34)	$ (0.34)

3. Stock Based Compensation and Warrants

The Company has a stock-based compensation program that provides its Board of Directors discretion in creating employee equity incentives. This program includes incentive and non-statutory stock options under various plans, the majority of which are stockholder approved. Stock options are generally time-based and expire seven to ten years from the date of grant. Vesting varies, with some options vesting 25% each year over four years; some vesting 1/12th per month over one year and some vesting 1/12th per month, commencing four years from the date of grant.

As of September 30, 2009, an aggregate of approximately 2.8 million shares of the Company s common stock was reserved for future issuance under the Company s stock option plans, of which 2.3 million shares were subject to outstanding options.

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In calculating stock-based compensation cost, the Company estimates the fair value of each option grant on the date of