INSIGNIA SOLUTIONS PLC
Form 424B3
April 12, 2005

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Filed Pursuant to
Rule 424(b)(3)
File No. 333-100916

PROSPECTUS SUPPLEMENT DATED April 12, 2005
to
Prospectus Dated December 4, 2002

12,000,000 AMERICAN DEPOSITORY SHARES
EACH REPRESENTING ONE ORDINARY SHARE OF
20 PENCE NOMINAL VALUE

INSIGNIA SOLUTIONS PLC

This Prospectus Supplement supplements our prospectus, dated December 4, 2002, relating to the sale of up to 12,000,000 American Depository Shares of Insignia Solutions plc by Fusion Capital Fund II, LLC.

You should only rely on the information provided in the prospectus, this prospectus supplement or any additional supplement. We have not authorized anyone else to provide you with different information. The shares are not being offered in any state where the offer is not permitted. You should not assume that the information in the prospectus or this prospectus supplement or any additional supplement is accurate as of any date other than the date on the front of those documents This Prospectus Supplement should be read in conjunction with the prospectus, and this Prospectus Supplement is qualified by reference to the prospectus except to the extent that the information herein contained supersedes the information contained in the prospectus. Capitalized terms used in this Prospectus Supplement and not otherwise defined herein have the meanings specified in the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the prospectus or this prospectus supplement. Any representation to the contrary is a criminal offense.

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RECENT DEVELOPMENTS

Attached hereto and hereby made part of the prospectus are the following appendices: (1) Appendix 1 our Annual Report on Form 10-K for the year ended December 31, 2004. Prospective investors in our shares should carefully read each of these documents and the related financial information prior to making any investment decision. These reports and related exhibits can also be obtained by mail for a fee from the public reference section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330, or through the SEC website at http://www.sec.gov.

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APPENDIX 1

Annual Report on Form 10-K for the year ended December 31, 2004

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 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 0-27012

Insignia Solutions plc
(Exact name of Registrant as specified in its charter)

England and Wales *(State or other jurisdiction of incorporation or organization)*	**Not applicable** *(I.R.S. employer identification number)*
41300 Christy Street **Fremont** **California 94538-3115** **United States of America** **(510) 360-3700**	**Insignia House** **The Mercury Centre** **Wycombe Lane, Wooburn Green** **High Wycombe, Bucks HP10 0HH** **United Kingdom** **(44) 1628-539500**

(Address and telephone number of principal executive offices and principal places of business)
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
(Title of class)
Ordinary Shares (£0.20 nominal value)

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 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 II of this Form 10-K or any amendment of this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $22,457,265 as of March 17, 2005 based upon the closing sale price on the Nasdaq SmallCap Market reported for such date. Ordinary shares held by each officer and director and by each person who owns 5% or more of the outstanding Ordinary share capital have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 17, 2005, there were 42,372,199 ordinary shares of £0.20 each nominal value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

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PART I

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) regarding the Company and its business, financial condition, results of operations and prospects. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions or variations of suc intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Report.

Although forward-looking statements in this Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed below, as well as those discussed elsewhere in this Report. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Report. You are urged to review and consider carefully the various disclosures made by us in this Report, which attempts to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations.

Item 1 *Business*

Company Overview

We commenced operations in 1986 and currently develop, market and support software technologies that enable mobile operators and phone manufacturers to update the firmware of mobile devices using standard over-the-air (OTA) data networks. Before 2003, our principal product line was the Jeode™ platform, based on our Embedded Virtual Machine (EVM™) technology. The Jeode platform was our implementation of Sun Microsystems, Inc. s (Sun) Java® technology tailored for smart devices. During 2001, we began development of a range of products (Secure System Provisioning or SSP products) for the mobile phone and wireless operator industry. The SSP product builds on our position as a Virtual Machine (VM) supplier for manufacturers of mobile devices and allow wireless operators and phone manufacturers to reduce customer care and software recall costs, as well as increase subscriber revenue by deploying new mobile services based on dynamically provisional capabilities. With the sale of our Jeode product line in April 2003, our sole product line consists of our SSP product. We shipped our first SSP product in December 2003, but have achieved only minimal sales to date.

Industry Overview

The telecommunications industry is moving very quickly towards providing sophisticated data services on a wide variety of different mobile terminals. Mobile phones (terminals and other portable devices) are becoming more sophisticated and accordingly the software within them is becoming more complex and hence less reliable. Operators want to introduce additional services, but are limited by the capabilities of the existing phones.

The Trend Towards More Complex Software

As more and more advanced features are packed into mobile phones, the software becomes more complex, leading to more software problems. However, consumers have come to expect the same level of reliability and performance as that to which they are accustomed from their traditional voice-only fixed phones. Thus, the addition of more software on the mobile phones creates a new critical challenge for operators and device manufacturers ensuring consistent reliability and performance.

Due to increased software functionality and hence complexity, manufacturers are experiencing a high incidence of problems with feature phones, adding a significant maintenance expense for the telecommunica-

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tions industry. Mobile phone recalls can be expensive. Manufacturers are often responsible for the entire recall operation, ranging from notification and taking customer calls to re-flashing and administering the entire process. The additional costs of repairing and maintaining these increasingly complex devices are restraining industry growth. Curbing these costs through a comprehensive Over-The-Air Repair[tm] system will significantly reduce the manufacturers costs by minimizing the need for in-store and through-the-mail repairs and by reducing customer service personnel.

Evolution of Mobile Terminals

In the 1980 s, when the first large scale commercial mobile services were launched in the United States, the mobile handsets or terminals available for services were analog voice-only terminals. Even when the first digital terminals came into the market, they were voice-only terminals. As the global subscriber base for mobile services grew exponentially in the 1990 s, static applications such as address books and games as well as communication applications such as short message service text messaging (SMS) were packed into the terminals. With the Internet boom in the mid to late 1990 s, mobile terminals evolved into sophisticated data terminals as well by integrating them with web browsers. As the need for data bandwidth grew, high-speed data technologies such as General Packet Radio Service (GPRS) and Code Division Multiple Access (CDMA) emerged, and the new models of mobile phones incorporated these high-speed data technologies. Toward the end of the 1990 s, the mobile terminals took another leap by introducing the concept of downloadable applications to the mobile world. In addition, evolving standards such as SyncML were introduced which allowed the transfer and synchronization of data in the mobile terminals with other devices such as personal computers (PCs) and personal data assistants (PDAs).

With the wider deployment of an enhanced phone for photo imaging, game playing and more messaging technologies, as well as the increasing coverage of more robust networks, the number of features built into mobile phones is going to increase dramatically.

The result of this rapid transformation of mobile terminals from voice-only terminals to sophisticated all-purpose consumer devices is that the software running on the mobile terminal has become extremely complex and hence vulnerable to problems.

Products and Support

Summary

The SSP product line has been available for sale since December 2003. The SSP product line revenue model is based on a combination of indirect sales to customers through OEMs as well as direct sales to customers. SSP product line revenues accounted for 83%, 3% and 0% of total Insignia revenues in 2004, 2003 and 2002, respectively.

SSP Platform

The SSP product is an open software system that enables mobile operators and terminal manufacturers to repair the system software on their subscribers terminals, as well as add new capabilities over-the-air. This capability helps to avoid terminal recalls due to software issues, reduces customer care call center costs, reduces churn due to dissatisfaction, lowers inventory, provides faster time to market and increases revenue per subscriber by extending terminal capabilities for new services.

Jeode Platform

On February 7, 2003, we entered into a loan agreement with esmertec AG (esmertec) whereby esmertec loaned Insignia $1.0 million at an interest rate of prime plus two percent. The principal amount of $1.0 million was repaid on January 15, 2004 by offsetting that amount with a receivable relating to the product line purchase. All remaining accrued interest of $55,161 was repaid on March 15, 2004 by offsetting the accrued interest against prepaid royalties. Accordingly, there are no outstanding balances or future amounts due to esmertec under the loan agreement as of December 31, 2004.

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On March 4, 2003, we entered into several other agreements (the Agreements) with esmertec, including a definitive agreement to sell certain assets relating to our Java Virtual Machine (JVM) product line in exchange for $3.5 million due in installments through April 2004. The transaction closed on April 23, 2003 and was amended on June 30, 2004. The assets sold primarily included the fixed assets, customer agreements and employees related to the JVM product line. Under the terms of the Agreements, esmertec also became the exclusive master distributor of the JVM technology in exchange for $3.4 million in minimum guaranteed royalties through October 2004.

Under the original agreements, Insignia could have earned up to an additional $4.0 million over the subsequent three-year period from the effective date of the agreement based on a percentage of esmertec s sales of the JVM product during the period. Additionally, the parties entered into a cooperative agreement whereas esmertec would promote Insignia s Secure System Provisioning (SSP) software product to esmertec s mobile platform customers.

As part of the sale of our JVM product line, we transferred 42 employees to esmertec, of which 31 were development engineers. In addition, as part of the sale, esmertec entered into an agreement with our U.K. building landlord in order to assume the lease on one of the two buildings leased by Insignia.

On February 13, 2004, Insignia and esmertec executed the final purchase agreement upon signing the Limited Assignment of Rights of Technology License and Distribution Agreement. The final purchase agreement transferred the intellectual property of Jeode and the title for Insignia s remaining prepaid royalties to esmertec.

On June 30, 2004, Insignia and esmertec executed a Termination and Waiver Agreement. The Agreement offset esmertec related liabilities and deferred revenue totaling $853,000 against $600,000 of remaining guaranteed royalty payments due from esmertec in exchange for a final cash payment of $185,000. The resulting net gain of $302,000 was recorded as other income in the second quarter of 2004 and is net of expenses. The final payment was received from esmertec on July 8, 2004.

The Jeode platform had been our principal product line since the third quarter of 1999. With the completion of the sale of our JVM product line to esmertec in February 2004 and the termination and waiver agreement dated June 30, 2004, Insignia s sole product line currently consists of its SSP products for the mobile handset and wireless carrier industry.

Support SSP Platform

We offer both pre-sales and post-sales support to our SSP platform customers. Pre-sales support is provided at no charge. After the sale of a license, each customer usually commits to at least a one year annual maintenance contract which entitles the customer to receive standard support, including: web-based support, access to frequently asked questions (FAQs), on-line publications and documentation, email assistance, limited telephone support, and critical bug fixes and product updates (collective bug fixes and minor enhancements). Annual maintenance contracts are also usually required during the time that the customer is developing and/or shipping products.

Research and Development

In 2004, 2003 and 2002, we spent approximately $2.8 million, $3.4 million and $5.6 million, respectively, on research and development. At December 31, 2004, we had 18 full-time employees engaged in research and development, of whom 9 were located at our facility in the United Kingdom and 9 were located at our facility in Fremont, California.

Proprietary Rights

We rely on a combination of copyright, trademark and trade secret laws and confidentiality procedures to protect our proprietary rights. We have filed in the United Kingdom and the United States patent applications for innovative technologies incorporated into our SSP product. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, consultants, distributors and corporate

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partners, and we limit access to and distribution of our software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise to obtain and use our products or technology without authorization, or to develop similar technology independently. In addition, effective protection of intellectual property rights may be unavailable or limited in certain countries. We license technology from various third parties.

We may, from time to time, receive communications from third parties asserting that our products infringe, or may infringe, on their proprietary rights. Licenses to disputed third-party technology may not be available on reasonable commercial terms, if at all. In addition, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation to determine the validity of any claims could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks, whether or not such litigation is determined in our favor. In the event of an adverse ruling in any such litigation, we may be required to pay substantial damages, discontinue the use and sale of infringing products, and expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. In the event of a successful claim against us and our failure to develop or license a substitute technology, our business, financial condition and results of operations would suffer. As the number of software products in the industry increases and the functionality of these products further overlaps, we believe that software developers may become increasingly subject to infringement claims. Any such claims against us, with or without merit, as well as claims initiated by us against third parties, can be time consuming and expensive to defend or prosecute and to resolve.

Sales and Marketing

SSP

SSP is being sold and marketed to mobile operators and device manufacturers through direct channels and OEMs. After an initial customer win, we may employ a channel approach for follow-on sales of our SSP product. We plan to distribute the SSP client through a variety of channel partners, who may include the code as part of their reference design, silicon platform or operating system.

Sales to distributors and OEMs representing more than 10% of total revenue in each period accounted for the following percentages of total revenue:

	Year Ended December 31,		
	2004	**2003**	**2002**
Distributors:			
Telemobile Corporation	28%		
Esmertec A.G.	17%	*	
Insignia Asia Corporation	14%		
Phoenix Technologies Ltd.	*	*	58%
All Distributors	60%	47%	70%
OEMs:			
Qindao Haier Telecom Company Limited	21%		
Sophast Inter Corporation Company Limited	18%		
Hewlett Packard Company		26%	*
All OEMs	40%	49%	29%

* Less than 10%

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Strategic Alliances

International Business Machines Corp. (IBM)

We are porting our SSP server software product onto the IBM Websphere platform and integrating it with IBM s device management software. We are co-selling and co-marketing, with IBM, the solution to mobile operators and phone manufacturers worldwide.

Symbian

Symbian has entered into a definitive agreement with Insignia to provide a royalty-free implementation of our SSP client software alongside its operating system to all Symbian licensees. We believe this implementation will enable rapid adoption of our technology by leading smart-phone vendors and mobile operators worldwide that are licensees of Symbian.

Competition

Our SSP product line is targeted for the mobile operator and mobile device market. The market for these products is fragmented and highly competitive. This market is also rapidly changing, and there are many companies creating products that compete or will compete with ours. As the industry develops, we expect competition to increase in the future. This competition may come from existing competitors or other companies that we do not yet know about. Our main competitors include Bitfone, InnoPath, 4thPass, OpenWave and RedBend.

If these competitors develop products that are less expensive or provide better capabilities or functionality than does our SSP product line, we will be unable to gain market share. Many of our current competitors and potential competitors have greater resources, including larger customer bases and greater financial resources than we do, and we might not be able to compete successfully against these companies. A variety of other potential actions by our competitors, including increased promotion and accelerated introduction of new or enhanced products, could also harm our competitive position.

Employees

As of December 31, 2004, we employed 32 regular full-time persons of which 20 were located in the United States and 12 were located in the United Kingdom. Of the 20 people in the United States, 4 were in sales and marketing, 9 in research and development and 7 in administration and finance. Of the 12 people located in the United Kingdom, 2 were in sales and marketing, 9 in research and development and 1 in administration and finance. None of our employees are represented by a labor union, and we have experienced no work stoppages. We believe that our employee relations are good.

Website Posting of SEC Filings

The Company s website provides a link to the Company s Securities Exchange Commission (SEC) filings, which are available on the same day such filings are made. The specific location on the Company s website where these reports can be found is *http://www.insignia.com/content/investor/sec.shtml*

Incorporation

Insignia Solutions plc was incorporated under the laws of England and Wales on November 20, 1985 under the name Diplema Ninety Three Limited, changed its name to Insignia Solutions Limited on March 5, 1986 and commenced operations on March 17, 1986. On March 24, 1995, the Company was re-registered as a public limited company under the name Insignia Solutions plc. Our principal executive offices in the United States are located at 41300 Christy Street, Fremont, California 94538. Our telephone number at that location is (510) 360-3700. Our registered office in the United Kingdom is located at The Mercury Centre, Wycombe Lane, Wooburn Green, High Wycombe, Bucks HP10 0HH. Our telephone number at that location is (44) 1628-539500.

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Item 2 ***Properties***

Our headquarters and principal management, sales and marketing and support facility is located in Fremont, California. On April 8, 2003, we entered into a three-year contract lease renewal for approximately 9,500 square feet. Our principal European sales, research and development and administrative facility is located in High Wycombe, in the United Kingdom, and consists of approximately 5,000 square feet under a lease that will expire in August 2013. In April 2003, as part of the sale of the JVM product line to esmertec, esmertec entered into an agreement with our U.K. building landlord to take over the leasehold property on one of the two buildings located in High Wycombe. Effective February 1, 2004, we subleased half of our remaining U.K. office space. The agreement expires December 31, 2009. Either party, with six-month prior notice, may terminate the lease January 1, 2006 or August 11, 2008.

We leased an office in Tokyo, Japan. This lease expired February 28, 2003 and the Japan office was closed. We do not anticipate expanding the size of our facilities in California, the United Kingdom, or Japan in the foreseeable future.

Item 3 ***Legal Proceedings***

None

Item 4 ***Submission of Matters to a Vote of Security Holders***

None

Executive Officers of the Registrant

The executive officers of Insignia as of March 18, 2005 are as follows:

Name	Age	Position
Mark E. McMillan	41	Chief Executive Officer, President and a Director
Robert E. Collins	58	Chief Financial Officer, Secretary and Vice President
Paul Edmonds	60	Vice President Engineering
Anders Furehed	36	Senior Vice President of European Operations

Executive officers serve at the discretion of the Board of Directors.

Mark E. McMillan was named Chief Executive Officer and a director of Insignia in February 2003. Mr. McMillan joined Insignia in November 1999 as Senior Vice President of Worldwide Sales and Marketing, was promoted to Executive Vice President of Worldwide Sales and Marketing in May 2000 and Chief Operating Officer in October 2000. Mr. McMillan was promoted to President in July 2001. Before joining Insignia, Mr. McMillan served as Vice President of Sales, Internet Division, for Phoenix Technologies Ltd. Prior to that, Mr. McMillan served as Phoenix s Vice President and General Manager of North American Operations.

Robert E. Collins was appointed Chief Financial Officer of the Company on January 19, 2004. Mr. Collins has over twenty-five years of industry experience with a background in telecommunications, semiconductors and health care. Mr. Collins served as Chief Financial Officer for both public and private companies including P-Com from October 1998 to April 2000, Netgear from April 2000 to June 2001 and Array Networks from October 2001 to May 2003. He also held several senior management positions including Treasurer at Syntex Corporation, a pharmaceutical company. Mr. Collins received his B.S. from Adelphi University and an MBA in finance from California State University at Hayward.

Paul Edmonds joined Insignia in April 2002 as Senior Director, Server Engineering. In February 2003, Mr. Edmonds was appointed Vice President of Engineering. Mr. Edmonds has over 20 years of industry experience and has held a variety of key engineering management positions with major companies in the telecommunications and mobile services industries. Prior to joining Insignia, Mr. Edmonds was a co-founder and Vice President of Engineering at @Motion, Inc. (acquired by Openwave) from February 1998 to June 2001. He also was lead inventor on two issued and three pending patents in scalable fault tolerant computer systems. Mr. Edmonds holds a Bachelor of Science degree from Trinity College and a Masters Degree in Computer Science from Boston University.

Anders Furehed joined Insignia in March 2005 as Senior Vice President of European Operations in connection with the closing of Insignia s acquisition of mi4e Device Management AB, (mi4e) a Swedish provider of client-provisioning device management software and services to mobile phone operators. In July 2003, Mr. Furehed co-founded mi4e and served as CEO of mi4e from July 2003 until March 2005 when Insignia acquired mi4e. From February 2001 until March 2003, Mr. Furehed was the founder of Syrei AB, a Swedish telecommunications consulting company. From 1999 until February 2001, Mr. Furehed was a technical manager for Netcom Consultant, a telecommunications consulting company.

PART II

Item 5 *Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities*

Price Range of Ordinary Shares

Our American Depositary Shares (ADSs), each representing one ordinary share of 20 pence nominal value, have been traded under the symbol INSGY from Insignia s initial public offering in November 1995 to December 24, 2000, and INSG since then. Our stock traded on the Nasdaq National Market from November 1995 to January 2003 and has traded on the Nasdaq SmallCap Market since then. The following table sets forth, for the periods indicated, the high and low sales prices for our ADSs as reported by the Nasdaq National Market or Nasdaq SmallCap Market as applicable:

	2004 Quarters Ended			
	Dec 31	**Sept 30**	**June 30**	**Mar 31**
Quarterly per share stock price:				
High	$ 1.30	$ 0.92	$ 2.14	$ 3.47
Low	$ 0.68	$ 0.50	$ 0.75	$ 0.88

	2003 Quarters Ended			
	Dec 31	**Sept 30**	**June 30**	**Mar 31**
Quarterly per share stock price:				
High	$ 1.62	$ 1.79	$ 0.80	$ 0.45
Low	$ 0.80	$ 0.39	$ 0.19	$ 0.20

The closing sales price of our shares as reported on the Nasdaq SmallCap Market on March 17, 2005 was $0.53 per share. As of that date, there were approximately 218 holders of record of our ordinary shares and ADSs, excluding those holders of ADSs that are held in nominee or street name by brokers.

Dividends

We have not declared or paid any cash dividends on our ordinary shares. We anticipate that we will retain any future earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future. Any payment of dividends would be subject, under English law, to the Companies Act 1985, and to our Memorandum and Articles of Association, and may only be paid from our retained earnings, determined on a pre-consolidated basis. As of December 31, 2004, Insignia Solutions, plc (excluding Insignia Solutions, Inc.) had an accumulated deficit of

$26,823,449 on a pre-consolidated basis.

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Item 6 ***Selected Consolidated Financial Data***

The tables that follow present portions of our consolidated financial statements and are not complete. You should read the following selected consolidated financial data in conjunction with our consolidated financial statements and related notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Report. The consolidated statements of operations data for the years ended December 31, 2004, 2003 and 2002, and the consolidated balance sheet data as of December 31, 2004 and 2003 are derived from our audited financial statements that are included elsewhere in this Report. The consolidated statements of operations data for the years ended December 31, 2001 and 2000 , and the consolidated balance sheet data as of December 31, 2002, 2001 and 2000 are derived from audited consolidated financial statements that are not included in this Report. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

Due to our product line changes and other significant financial events the comparability of the consolidated financial statements from year to year may be affected materially. For further clarity review the Sale of Java Virtual Machine Assets in the following Management, Discussion and Analysis.

Selected Consolidated Financial Data
(In thousands, except per share data)

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Consolidated Statement of Operations Data					
Net revenues	$ 541	$ 710	$ 7,256	$ 10,273	$ 10,766
Cost of net revenues	42	340	2,584	4,275	3,291
Gross profit	499	370	4,672	5,998	7,475
Operating expenses:					
Sales and marketing	2,511	1,757	5,558	7,058	5,376
Research and development	2,807	3,373	5,640	6,220	5,960
General and administrative	2,579	2,676	3,356	4,155	3,733
Restructuring		498	296	292	
Total operating expenses	7,897	8,304	14,850	17,725	15,069
Operating loss	(7,398)	(7,934)	(10,178)	(11,727)	(7,594)
Interest and other income (expense), net	255	3,101	(356)	567	(5)
Loss before income taxes	(7,143)	(4,833)	(10,534)	(11,160)	(7,599)
Benefit from income taxes	(81)	(510)	(2,114)	(152)	(785)
Net loss	$ (7,062)	$ (4,323)	$ (8,420)	$ (11,008)	$ (6,814)
Net loss per share:					
Basic and diluted	$ (0.23)	$ (0.20)	$ (0.42)	$ (0.57)	$ (0.47)
Weighted average ordinary shares and ordinary share equivalents:					

Basic and diluted	30,191	21,231	19,937	19,248	14,571

	December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Consolidated Balance Sheet Data					
Cash, cash equivalents, short-term investments and restricted cash	$ 952	$ 2,232	$ 976	$ 8,893	$ 17,351
Working capital	900	2,254	1,964	10,633	11,377
Total assets	2,587	6,794	6,453	17,768	22,336
Mandatorily redeemable warrants		38	1,440	1,440	1,440
Total shareholders equity	$ 1,341	$ 2,589	$ 2,673	$ 9,895	$ 15,749

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Item 7 ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Except for the historical information contained in this Annual Report on Form 10-K, the matters discussed herein are forward-looking statements. Words such as anticipates, believes, expects, future, and intends, and similar expressions are used to identify forward-looking statements. These and other statements regarding matters that are not historical are forward-looking statements. These matters involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed below as well as those discussed elsewhere in this Report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Overview

We commenced operations in 1986 and currently develop, market and support software technologies that enable mobile operators and phone manufacturers to update the firmware of mobile devices using standard over-the-air data networks. Before 2003, our principal product line was the Jeode platform, based on our Embedded Virtual M