ARTEMIS INTERNATIONAL SOLUTIONS CORP
Form 10-Q
May 24, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended March 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 000-29793

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**13-4023714**
(State of Incorporation)	(I.R.S. Employer Identification Number)

4041 MacArthur Boulevard, Suite 260, Newport Beach, CA 92660

(Address of principal executive offices, including zip code)

(949) 660-7100

(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, $.01 par 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 ý No o

Indicate by check mare whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

There were 9,965,018 shares of common stock outstanding as of April 30, 2004.

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2004

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ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(in thousands)

	March 31, 2004 (Unaudited)	December 31, 2003
Current assets:		
Cash	$ 5,020	$ 2,593
Trade accounts receivable, net of allowance for doubtful accounts of approximately $269 at March 31, 2004 and $299 at December 31, 2003	10,847	14,169
Other accounts receivable	333	298
Prepaid expenses	1,498	1,123
Other current assets	439	694
Total current assets	18,137	18,877
Property and equipment, net of accumulated depreciation and amortization of $7,821 at March 31, 2004 and $7,775 at December 31, 2003	1,104	1,192
Intangible assets, net of amortization of $9,265 at March 31, 2004 and $8,235 at December 31, 2003	5,490	6,520
Investment in affiliates and other assets	1,768	1,769
Total assets	$ 26,499	$ 28,358
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 3,618	$ 5,024
Accrued liabilities	5,432	5,222
Accrued payroll and related taxes	5,473	6,682
Deferred revenue	8,273	7,227
Line of credit	3,987	3,386
Current portion of long-term debt	361	352
Total current liabilities	27,144	27,893
Accrued pension and other liabilities	2,815	2,834
Deferred taxes	480	480
Long-term debt, less current portion	3,387	324
Total liabilities	33,826	31,531
Commitments and contingencies		
Stockholders deficit:		

Preferred stock, $0.001 par value, 25,000,000 shares authorized, none issued or outstanding				
Common stock, $0.001 par value, 500,000,000 shares authorized, 9,965,018 shares issued and outstanding for March 31, 2004 and December 31, 2003		10		10
Additional paid-in capital		81,070		81,070
Accumulated deficit		(86,886)		(82,991)
Accumulated other comprehensive loss		(1,521)		(1,262)
Total stockholders deficit		(7,327)		(3,173)
Total liabilities and stockholders deficit	$	26,499	$	28,358

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

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ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(Unaudited)	(Unaudited)
Revenue:		
Software	$ 2,796	$ 4,610
Support	4,399	4,294
Services	6,421	7,291
	13,616	16,195
Cost of revenue:		
Software	91	260
Support	1,478	1,343
Services	4,736	5,624
	6,305	7,227
Gross margin	7,311	8,968
Operating expenses:		
Selling and marketing	3,844	3,963
Research and development	2,067	2,142
General and administrative	2,677	2,669
Amortization	1,029	1,029
Restructuring charge	1,247	
	10,864	9,803
Operating loss	(3,553)	(835)
Interest expense, net	91	26
Other (income), net	(156)	(3)
Foreign exchange (gain) loss	104	(54)
	39	(31)
Loss before income taxes	(3,592)	(804)
Income tax expense	300	104
Net loss	$ (3,892)	$ (908)
Loss per common share:		

Basic	$	(0.39)	$	(0.09)
Diluted	$	(0.39)	$	(0.09)
Weighted average common shares used in computing loss per common share		9,965		9,965

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

ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31, 2004		Three Months Ended March 31, 2003	
	(Unaudited)			
Cash flow from operating activities:				
Net loss	$	(3,892)	$	(908)
Adjustments to reconcile net loss to net cash provided by or used in operating activities:				
Depreciation and amortization		1,268		1,345
Disposition of assets		(93)		
Changes in operating assets and liabilities:				
Decrease in trade accounts receivable		2,781		4,748
Decrease in prepaid expenses and other assets		1,089		400
(Decrease) increase in deferred revenues		1,046		(852)
Decrease in accounts payable, accrued liabilities, and other liabilities		(3,129)		(3,346)
Net cash provided by (used in) operating activities		(930)		1,387
Cash flow from investing activities:				
Capital expenditures, net		(57)		(264)
Net cash used in investing activities		(57)		(264)
Cash flow from financing activities:				
Net borrowings (repayments) on lines of credit		601		(1,260)
Principal borrowings (payments) of debt and capital leases		3,072		(359)
Net cash provided by (used in) financing activities		3,673		(1,619)
Effect of exchange rate changes on cash		(259)		108
Net increase (decrease) increase in cash		2,427		(388)
Cash at the beginning of the period		2,593		7,766
Cash at the end of the period	$	5,020	$	7,378
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	$	7	$	41
Cash paid for income taxes	$	322	$	148

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

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ARTEMIS INTERNATIONAL SOLUTIONS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(all tabular amounts in thousands except per share amounts)

Note 1. Organization

Artemis International Solutions Corporation and Subsidiaries, (*Artemis* or the *Company*) is a provider of enterprise-based portfolio, project and resource management software solutions. Artemis solutions consist of scalable client/server and Web-based applications, and are supported by consulting services and an international distribution network of 50 offices in 47 countries. Artemis has aligned its customer facing functions of sales, consulting, marketing and strategic alliances to seven key vertical markets, (i) Aerospace and Defense, (ii) Energy and Telecom, (iii) Pharmaceuticals, (iv) Government, (v) Financial Services (vi) Automotive and (vii) High Technology. Product management and research and development efforts are focused on developing solutions to meet the needs of these markets. Proha Plc (Proha), a Finnish corporation, owns approximately 80% of the outstanding common stock of Artemis.

Note 2. Basis of Presentation and Going Concern Considerations

The accompanying condensed consolidated financial statements of Artemis, which include the accounts of its wholly-owned subsidiaries for the three month periods ended March 31, 2004 and 2003 and the related footnote information are unaudited and have been prepared on a basis substantially consistent with the Company s audited consolidated financial statements as of December 31, 2003 contained in the Company s annual report on Form 10-K, as filed with the Securities and Exchange Commission (the Annual Report). The December 31, 2003 balance sheet included herein reflects certain reclassification adjustments consistent with the presentation of the balance sheet at March 31, 2004. All significant intercompany transactions have been eliminated. Equity investments in which Artemis owns at least 20% of the voting securities, or exercises significant influence over, (either individually or in concert with Proha) are accounted for using the equity method. Investments in which the Company owns less than 20% and is not able to exercise significant influence over the investee are accounted for under the cost method of accounting.

The Company s independent public accountants have included a going concern explanatory paragraph in their audit report on the December 31, 2003 consolidated financial statements, which have been prepared assuming that the Company will continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. At March 31, 2004, the Company s current liabilities exceeded current assets by $9.0 million and the Company reported a cash balance of $5.0 million. Operating cash flow was negative $0.9 million for the three months ended March 31, 2004. In order to improve its cash availability, the Company entered into a $5.0 million asset-based lending facility with Laurus Master Fund, Ltd (Laurus) in August 2003. In addition to the aforementioned facility, the Company s wholly-owned subsidiary in Finland, Artemis Finland Oy (Artemis Finland), entered into a loan agreement with a financial institution in the amount of approximately $3.1 million to cover its short-term cash needs. The Company also has other lending facilities available to certain of its subsidiaries, such as in Japan and France. In addition to the lending facilities available to the Company, management has taken some steps to reduce and defer discretionary spending to more closely match expenses with actual and projected revenues. In late 2002, the Company decided to start divesting certain non-core investments and operations to focus on its core expertise in enterprise portfolio and project management. This resulted in the sale of its 19.9% interest in Accountor Oy (Finland), ABC Technologies Sarl (France) and its Software Productivity Research operations (US) in November 2002, December 2002 and October 2003, respectively. During 2003, the Company also initiated discretionary restructuring activities that included workforce reductions and other cost reductions to respond to the weakening of certain of the Company s markets, increased operating losses and negative cash flow from operations. Because certain of the Company s key operating metrics did not improve in late 2003, the Company adopted a nondiscretionary restructuring plan (see Note 11) that was implemented and communicated to the employees affected by the related workforce reductions during the quarter ended March 31, 2004.

The Company is also actively seeking additional capital resources through equity financing and other arrangements to fund strategic initiatives and further strengthen its global presence. Additional equity financing may be dilutive to the Company s stockholders. The Company s capital requirements depend on numerous factors, including the rate of market acceptance of the Company s products and services, the

Company s ability to service its customers, the Company s ability to maintain and expand its customer base, the level of resources required to expand the Company s marketing and sales organization, research and development activities and other factors.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in the Company s Annual Report. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which, except as described elsewhere herein, consisted only of normal recurring adjustments) which management considers necessary to present fairly the financial position of the Company at March 31, 2004 and the results of operations and cash flows for the three months ended March 31, 2004 and 2003. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results anticipated for the entire year ending December 31, 2004.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions regarding revenue recognition, and the recoverability of intangible assets that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On February 7, 2003, the Company effected a one for twenty-five reverse stock split of its outstanding common stock. All information regarding common stock, stock options, warrants and related per share amounts has been retroactively restated within this report to reflect the reverse stock split.

Note 3. Stock-Based Employee Compensation

The Company has several stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No.25, *Accounting for Stock Issued to Employees* , and related interpretations. No stock-based employee compensation cost is reflected in the statements of operations as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123,* provides alternative methods for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation as described in SFAS No. 123 *Accounting for Stock-Based Compensation* . This standard also requires additional disclosure related to stock-based employee compensation in annual and interim financial reporting. This standard is generally effective for fiscal years ended after December 15, 2002 and did not have any impact on our condensed consolidated financial statements except for the tabular disclosure presented below. The following table illustrates the effect on loss and loss per common share as if the Company had applied the fair value recognition provisions of SFAS No. 123 for all of its stock-based employee compensation plans.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(Unaudited)	(Unaudited)
Net loss as reported	$ (3,892)	$ (908)
Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model	(139)	(322)
Pro forma net loss	$ (4,031)	$ (1,230)

Basic and diluted loss per common share				
As reported	$	(0.39)	$	(0.09)
Pro forma	$	(0.40)	$	(0.12)

Note 4. Significant Recent Accounting Pronouncements

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities, or VIEs), and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (a) the equity investors do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. As amended in December 2003, the effective dates of FIN No. 46 for public entities that are not small business issuers are as follows: (a) For interests in special-purpose entities: the first period ended after December 15, 2003; and (b) For all other types of VIEs: the first period ended after March 15, 2004. Management has determined that the Company does not have any VIEs, and there is no impact on its consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendments of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. This pronouncement is effective for contracts entered into or modified after June 30, 2003 (with certain exceptions), and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity, and is effective for public companies as follows: (i) in November 2003, the FASB issued FASB Staff Position (FSP) FAS 150-03 (FSP 150-3), which defers indefinitely (a) the measurement and classification guidance of SFAS No. 150 for all mandatorily redeemable non-controlling interests in (and issued by) limited-life consolidated subsidiaries, and (b) SFAS No. 150 s measurement guidance for other types of mandatorily redeemable non-controlling interests, provided they were created before November 5, 2003; (ii) for financial instruments entered into or modified after May 31, 2003 that are outside the scope of FSP 150-3; and (iii) otherwise, at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 on the aforementioned effective dates. The adoption of this pronouncement did not have a material impact on the Company s results of operations or financial condition.

In December 2003, the FASB issued a revision of SFAS No. 132, *Employers Disclosures about Pensions and Other Postretirement Benefits*. This pronouncement (SFAS No. 132-R) expands employers disclosures about pension plans and other post-retirement benefits, but does not change the measurement or recognition of such plans required by SFAS No. 87, No. 88. or No. 106. SFAS No. 132-R retains the existing disclosure requirements of SFAS No. 132, and requires certain additional disclosures about defined benefit post-retirement plans. The defined benefit pension plan of the Company s United Kingdom subsidiary is the Company s only defined benefit post-retirement plan. Except as described in the following sentence, SFAS No. 132-R is effective for foreign plans for fiscal years ending after June 15, 2004; after the effective date, restatement for some of the new disclosures is required for earlier annual periods. Some of the interim-period disclosures mandated by SFAS No. 132-R (such as the components of net periodic benefit cost, and certain key assumptions) are effective for foreign plans for quarters beginning after December 15, 2003; other interim-period disclosures will not be required for the Company until the first quarter of 2005. The Company is presently evaluating the effect of SFAS No. 132-R on its financial statement disclosures.

Other recent accounting pronouncements issued by the Financial Accounting Standards Board (including the Emerging Issues Task Force), the American Institute of Certified Public Accountants and the Securities and Exchange Commission (the SEC), did not or are not believed by management to have a material impact on the Company s present or future consolidated financial statements.

Note 5. Basic and Diluted Loss Per Common Share

The Company calculates earnings or loss per common share in accordance with SFAS No. 128, *Earnings Per Share*. Accordingly, basic loss per common share excludes dilution for potentially dilutive securities and is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The following table sets forth the computation of basic and diluted loss per common share:

	Three Months Ended March 31, 2004 (Unaudited)		Three Months Ended March 31, 2003 (Unaudited)	
Numerator:				
Net loss	$	(3,892)	$	(908)
Denominator:				
Weighted average outstanding shares of common stock		9,965		9,965

Note 6. Comprehensive Loss

Comprehensive loss consists of net income or loss, adjusted for other increases or decreases affecting stockholders equity that are excluded in the determination of net income or loss. The calculation of comprehensive loss for the three months ended March 31, 2004 and 2003 is as follows:

	Three Months Ended March 31, 2004 (Unaudited)		Three Months Ended March 31, 2003 (Unaudited)	
Net loss	$	(3,892)	$	(908)
Translation gain (loss)		(259)		108
Comprehensive net loss	$	(4,151)	$	(800)

Note 7. Segment and Geographic Information

Income from operations is assigned by region based upon management responsibility. The following unaudited table presents financial information about the Company s operations by geographic region:

Three Months Ended March 31, 2004

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 555	$ 1,853	$ 211	$ 177	$ 2,796
Support	1,241	2,628	468	62	4,399
Services	1,182	4,449	555	235	6,421
Total revenue	2,978	8,930	1,234	474	13,616
Cost of revenue:					
Software	5	37	49		91
Support	422	887	133	36	1,478
Services	884	3,418	346	88	4,736
Total cost of revenue	1,311	4,342	528	124	6,305
Gross margin	1,667	4,588	706	350	7,311
Operating income (loss)	$ (3,201)	$ (584)	$ 164	$ 68	$ (3,553)

Three Months March 31, 2003

	Americas	EMEA	Japan	Asia	Total
Revenue:					
Software	$ 831	$ 3,229	$ 425	$ 125	$ 4,610
Support	1,365	2,418	436	75	4,294
Services	1,906	4,415	727	243	7,291
Total revenue	4,102	10,062	1,588	443	16,195
Cost of revenue:					
Software	25	130	102	3	260
Support	423	732	161	27	1,343
Services	1,536	3,462	528	98	5,624
Total cost of revenue	1,984	4,324	791	128	7,227
Gross margin	2,118	5,738	797	315	8,968
Operating income (loss)	$ (2,643)	$ 1,481	$ 240	$ 87	$ (835)

Identifiable assets are also assigned by region based upon management responsibility. The following table presents information about the Company s identifiable assets:

	March 31, 2004 (unaudited)	December 31, 2003
Computer hardware	$ 5,389	$ 5,402
Computer software	1,604	1,615
Leasehold improvements	332	336
Furniture and fixtures	1,244	1,255
Other	356	359
	8,925	8,967