Trinsic, Inc.
Form 10-Q
August 15, 2005

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

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: 000-28467

TRINSIC, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	59-3501119
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

601 SOUTH HARBOUR ISLAND BOULEVARD, SUITE 220
TAMPA, FLORIDA 33602
(813) 273-6261
(Address, including zip code, and telephone number including area code, of Registrant s principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, PAR VALUE $.01 PER SHARE, PREFERRED STOCK PURCHASE RIGHTS

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 is an accelerated filer (as defined in Rule 12B-2 of the Exchange Act)

Yes o No þ

The number of shares of the Registrant s Common Stock outstanding as of August 12, 2005 was approximately 55,905,602.

Table of Contents

TABLE OF CONTENTS

PART I

Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 2005 (unaudited) and December 31, 2004	3
Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2005 and 2004	4
Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2005 and 2004	5
Notes to Unaudited Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk	23
Item 4. Controls and Procedures	23

PART II

Item 1. Legal Proceedings	23
Signatures	27

Ex-10.1.2 Amendment to Credit Facility
Ex-10.1.3 Amended Promissory Note
Ex-31.1 Section 302 CEO Certification
Ex-31.2 Section 302 CFO Certification
Ex-32.1 Section 906 CEO Certification
Ex-32.2 Section 906 CFO Certification

Table of Contents

TRINSIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	(Unaudited) **June 30, 2005**	(Audited) **December 31, 2004**
Assets		
Current assets:		
Cash and cash equivalents	$ 536	$ 1,363
Accounts receivable, net of allowance for doubtful accounts of $9,214 and $10,967	25,936	27,242
Prepaid expenses and other current assets	2,856	836
Total current assets	29,328	29,441
Property and equipment, net	22,411	27,829
Intangible assets, net		457
Other assets	4,238	3,609
Total assets	$ 55,977	$ 61,336
Liabilities and Stockholders Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	$ 49,879	$ 55,605
Deferred revenue	6,536	6,264
Current portion of long-term debt and capital lease obligations	20,501	7,536
Asset based loan		12,934
Total current liabilities	76,916	82,339
Long-term deferred revenue	18	46
Long-term debt and capital lease obligations	34	33
Total liabilities	76,968	82,418
Commitments and contingencies (Notes 7 and 10)		
Stockholders deficit:		
Common stock, $0.01 par value; 150,000,000 shares authorized; 55,973,912 and 55,253,612 shares issued; 55,905,602 and 55,185,302 shares outstanding	552	553
Notes receivable from stockholders	(870)	(3,685)
Unearned stock compensation	(314)	(466)
Additional paid-in capital	392,430	392,488
Accumulated deficit	(412,711)	(409,894)

Treasury stock, 68,310 shares at cost	(78)	(78)
Total stockholders deficit	(20,991)	(21,082)
Total liabilities and stockholders deficit	$ 55,977	$ 61,336

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

3

Table of Contents

TRINSIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues	$ 50,797	$ 63,797	$ 107,928	$ 132,264
Operating expenses:				
Network operations, exclusive of depreciation and amortization shown below	26,999	31,232	56,833	65,266
Sales and marketing	3,692	4,937	8,911	10,014
General and administrative	18,574	31,125	41,084	65,125
Restructuring charge	451	807	451	807
Depreciation and amortization	2,955	5,109	7,134	10,420
Total operating expenses	52,671	73,210	114,413	151,632
Operating loss	(1,874)	(9,413)	(6,485)	(19,368)
Nonoperating income (expense):				
Interest and other income	490	440	7,293	1,282
Interest and other expense	(1,873)	(2,138)	(3,626)	(3,408)
Total nonoperating income (expense)	(1,383)	(1,698)	3,667	(2,126)
Net loss	(3,257)	(11,111)	(2,818)	(21,494)
Less mandatorily redeemable convertible preferred stock dividends and accretion		(3,626)		(7,991)
Less deemed dividend related to beneficial conversion feature		(47)		(93)
Net loss attributable to common stockholders	$ (3,257)	$ (14,784)	$ (2,818)	$ (29,578)

Weighted average common shares outstanding	55,335,635	7,321,741	55,260,884	7,267,561
Basic and diluted net loss per common share	$ (0.06)	$ (2.02)	$ (0.05)	$ (4.07)

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

Table of Contents

TRINSIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Six Months Ended June 30,	
	2005	**2004**
Cash flows from operating activities:		
Net loss	$ (2,818)	$(21,494)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,134	10,420
Provision for bad debts	6,384	3,017
Expense charged for granting of stock options	93	888
Change in operating assets and liabilities:		
Increase in accounts receivable	(2,513)	(7,089)
(Increase) decrease in prepaid expenses	(2,020)	2,860
(Increase) decrease in other assets	(628)	551
Increase (decrease) in accounts payable and accrued liabilities	(5,352)	4,515
Increase (decrease) in deferred revenue	244	(2,851)
Total adjustments	3,342	12,311
Net cash provided by (used in) operating activities	524	(9,183)
Cash flows from investing activities:		
Purchases of property and equipment	(1,633)	(4,732)
Principal repayments received on notes receivable		40
Net cash used in investing activities	(1,633)	(4,692)
Cash flows from financing activities:		
Payments on long-term debt and capital lease obligations	(534)	(3,248)
Principal repayments received on notes receivable issued for stock	250	191
Payment of preferred stock dividends		(3)
Proceeds from (payoff of) asset based loan	(12,934)	12,619
Proceeds from stand by credit facility	13,500	
Proceeds from exercise of stock options and warrants		499
Net cash provided by financing activities	282	10,058
Net decrease in cash and cash equivalents	(827)	(3,817)
Cash and cash equivalents, beginning of period	1,363	12,013

Cash and cash equivalents, end of period	$ 536	$ 8,196

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

5

Table of Contents

TRINSIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(ALL TABLES ARE IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

1. NATURE OF BUSINESS

DESCRIPTION OF BUSINESS

Trinsic, Inc. and subsidiaries (we or us) is an emerging provider of advanced, integrated telecommunications services targeted to residential and business subscribers. We provide local and long distance telephone services in combination with enhanced communication features accessible through the telephone, the Internet and certain personal digital assistants. We provide these services in forty-nine states, but our customers are primarily concentrated in six states.

We recently began providing services utilizing Internet protocol, often referred to as IP telephony, voice over Internet protocol or VoIP. We provide long-distance telecommunications services nationwide.

We introduced our services on a wholesale basis during the first quarter of 2002. This provides other companies with the opportunity to provide local, long-distance and enhanced telephone service to their own residential and business end user customers on a private label basis by utilizing our telephone exchange services, enhanced services platform, infrastructure and back-office operations.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying unaudited consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business is dependent on, among other things, the company s ability to operate profitably, to generate cash flow from operations and to obtain funding adequate to fund its business.

We have a limited operating history and our operations are subject to material risks and uncertainties, particularly related to the evolution of the regulatory environment, which impacts our access to and cost of the network elements that we utilize to provide services to our customers.

We have incurred significant losses since our inception as a result of developing our business, performing ongoing research and development, building and maintaining our network infrastructure and technology, the sale and promotion of our services, and ongoing administrative expenditures. As of June 30, 2005, we had an accumulated deficit of approximately $412.7 million and $0.5 million in cash and cash equivalents. We have funded our expenditures primarily through operating revenues, private securities offerings, various working capital facilities, our standby credit facility and an initial public offering.

The company s inability to operate profitably and to consistently generate cash flows from operations, its reliance therefore on external funding either from loans or equity raise substantial doubt about the company s ability to continue as a going concern.

For the six months ended June 30, 2005, net cash provided by operating activities was $0.5 million as compared to $9.2 million used in operating activities in the prior year period.

In April 2004, the company secured an asset based loan facility with Textron Financial Corporation (Textron), which provided up to $25 million to fund operations. Effective January 27, 2005, we entered into a Modification and Termination Agreement with Textron. Among other things the Modification and Termination Agreement provided that Textron would forbear from exercising default rights and remedies until May 31, 2005, would waive the early termination fee and modify the annual facility fee. We agreed to pay a modification fee of $150,000.

On April 4, 2005, we entered into an accounts receivable financing agreement with Thermo Credit, LLC (Thermo). The agreement provides for the sale of up to $22 million of our accounts receivable on a continuous basis to Thermo, subject to selection criteria as defined in the contract. On May 6, 2005, we used proceeds from this accounts receivable financing facility to pay off our loan balance with Textron.

By letter dated May 6, 2005, the Nasdaq Stock Market notified us that the market value of our common stock remained below the minimum of $35 million required by Marketplace Rule 4310(c)(2)(B)(ii) and accordingly our shares would be delisted from the Nasdaq SmallCap Market at the opening of business on May 17, 2005. We appealed the decision and presented a definitive plan for regaining compliance to a hearing panel. A Nasdaq Listing

Qualifications Hearing Panel granted the company a temporary exception from these requirements subject to the following conditions:

(1) The company s Form 10-Q for the quarter ended June 30, 2005 must evidence pro forma stockholders equity of at least $2,500,000 at June 30, 2005.

Table of Contents

(2) The company s Form 10-Q for the quarter ended September 30, 2005 must report actual stockholders equity at September 30, 2005 of at least $2,500,000.
(3) On or before September 30, 2005, the company must evidence a closing bid price of at least $1.00 per share and immediately thereafter a closing bid price of at least $1.00 per share for a minimum of 10 consecutive trading days.
If we meet the terms of the exception, our shares will continue to be listed on The Nasdaq SmallCap Market.
Commencing Friday, July 28, 2005 and for the duration of the exception, the trading symbol for our shares will be TRINC. The C will be removed from the symbol upon confirmation of the company s compliance with the terms of the exception and all other criteria for continued listing.
Our net cash used in investing activities decreased by $3.1 million to $1.6 million for the six months ended June 30, 2005, compared to $4.7 million the prior year period. The reduction was attributable to the purchasing of less property and equipment during the six months ended June 30, 2005 as compared to the same period in the prior year.
For the six months ended June 30, 2005, net cash provided by financing activities was $0.3 million as compared to $10.1 million for the prior year period. This change is the result of using proceeds from our accounts receivable financing facility to payoff our asset based loan with Textron.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by us in accordance with accounting principles generally accepted in the United States of America for interim financial information and are in the form prescribed by the Securities and Exchange Commission s (SEC) instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements as required by accounting principles generally accepted in the United States of America. The interim unaudited financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2004, included in our Annual Report on Form 10-K filed with the SEC on April 15, 2005. In the opinion of management, all adjustments considered necessary for a fair statement have been included. Operating results for the three and six month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

RECLASSIFICATION

Certain amounts in the consolidated statements of operations for the three and six months ended June 30, 2004 have been reclassified to conform to the presentation for the three and six months ended June 30, 2005.

3. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

(a) Significant Accounting Policies

Our significant accounting policies are included in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004.
Effective January 1, 2005, we have deferred the fee charged to us by the Incumbent Local Exchange Carriers (ILECs) in the activation of our business VoIP customers. This fee and any acquisition revenue received from the customers are being deferred and amortized over the life of each customer s signed contract At June 30, 2005, unamortized deferred set up fees amounted to $0.6 million.

(b) Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections, which is effective beginning on January 1, 2006. SFAS No. 154 requires that all voluntary changes in accounting principles are retrospectively applied to prior financial statements as if that principle had always been used, unless it is impracticable to do so. When it is impracticable to calculate the effects on all prior periods, SFAS No. 154 requires that the new principle be applied to the earliest period practicable. The adoption of SFAS No. 154 is not anticipated to have a material effect on our financial position or results of operations.
In March 2005, the FASB issued Interpretation Number 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies the term conditional asset retirement obligation as used in Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, and also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We do not anticipate that the implementation of FIN 47 will have a material impact on our financial position, results of

operations or cash flows.

Table of Contents

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payments (SFAS No. 123R). SFAS No. 123R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and measurement based on the grant-date fair value of the award. It requires the cost to be recognized over the period during which an employee is required to provide service in exchange for the award. Additionally, compensation expense will be recognized over the remaining employee service period for the outstanding portion of any awards for which compensation expense had not been previously recognized or disclosed under SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). SFAS No. 123R replaces SFAS No. 123 and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and its related interpretations.

SFAS No. 123R was originally required to be adopted beginning no later than the third quarter of 2005. However, in April 2005, the Securities and Exchange Commission announced the adoption of a new staff accounting bulletin that amends the compliance dates for SFAS No. 123R. Accordingly, we are required to adopt SFAS No. 123R no later than January 1, 2006. We are currently assessing the timing and impact of adopting SFAS No. 123R.

4. STANDBY CREDIT FACILITY AND ACCOUNTS RECEIVABLE AGREEMENT

During the first quarter of 2005, we received advances of $3.5 million, $2.5 million and $1.2 million on February 14, 2005, March 4, 2005 and March 24, 2005, respectively, from our standby credit facility with The 1818 Fund III, LP. During the second quarter of 2005, we received advances of $1.3 million, $2.5 million and $2.5 million on May 9, 2005, May 24, 2005 and June 10, 2005, respectively.

On April 4, 2005, we entered into an accounts receivable financing agreement with Thermo Credit, LLC (Thermo) to replace our Textron credit facility. The agreement provides for the sale of up to $22 million of our accounts receivable on a continuous basis to Thermo, subject to selection criteria as defined in the contract. The discount rate is 2.5%. Purchase of the receivables is at the option of Thermo. On May 6, 2005, we used proceeds from this accounts receivable financing facility to pay off our loan balance with Textron.

5. RESTRUCTURING CHARGES

On April 6, 2005, we initiated a reduction in force which terminated the employment of approximately 107 of our employees. We incurred a one-time charge during April of approximately $450,000 consisting primarily of post termination wages, salaries and the associated payroll taxes, net of vacation expense already accrued for these employees. Substantially all of these post termination wages were paid within 30 days following the reduction in force.

The following table shows the restructuring charges and related accruals recognized under the restructuring plans described above and in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004 and the effect on our consolidated financial position:

	Employee Termination Benefits	**Lease Abandonment Costs**	**Asset Retirement**	**Total**
Balance at December 31, 2002	$	$ 551	$	$ 551
Cash paid		(200)		(200)
Balance at December 31, 2003		351		351
Plan Charges	4,527	234	40	4,801
Cash paid	(3,646)	(262)		(3,908)
Asset disposal			(40)	(40)
Converted to note payable		(40)		(40)
Lease termination settlement reversal		(210)		(210)
Balance at December 31, 2004	881	73		954
Plan Charges	451			451

Vacation Accrual	91			91
Cash paid	(1,062)	(73)		(1,135)
Balance at June 30, 2005	$ 361	$	$	$ 361

6. STOCK BASED COMPENSATION

For employee stock options, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation requiring entities to recognize as an expense, over the vesting period, the fair value of the options or utilize the accounting for employee stock options used under APB 25. We apply the provisions of APB 25 and consequently recognize compensation expense over the vesting period for grants made to employees and directors only if, on the measurement date, the market price of the underlying stock exceeds the

Table of Contents

exercise price. We provide the pro forma net income and earnings per share disclosures as required under SFAS No. 123 for grants made as if the fair value method defined in SFAS No. 123 had been applied. We recognize expense over the vesting period of the grants made to non-employees utilizing the Black-Scholes stock valuation model to calculate the value of the option on the measurement date.

The following table illustrates, in accordance with the provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of SFAS 123, Accounting for Stock-Based Compensation, the effect on net income (loss) and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation.

	For the three months ended June 30,		**For the six months ended June 30,**	
	2005	**2004**	**2005**	**2004**
Net loss attributable to common stockholders, as reported	$(3,257)	$(14,784)	$(2,818)	$(29,578)
Add: Stock based compensation included in net loss	52	888	93	888
Deduct: Total stock based employee compensation determined under the fair value based method for all awards	(637)	(1,043)	(1,279)	(1,799)
Net loss attributable to common stockholders, pro forma	$(3,842)	$(14,939)	$(4,004)	$(30,489)
Basic and Diluted Net Loss per Common Share				
As reported	$ (0.06)	$ (2.02)	$ (0.05)	$ (4.07)
Pro forma	$ (0.07)	$ (2.04)	$ (0.07)	$ (4.20)

We calculated the fair value of each grant on the date of grant using the Black-Scholes option pricing model. In addition to there being no payments of dividends on our common stock, the following assumptions were used for each respective period:

	For the three months ended June 30,		**For the six months ended June 30,**	
	2005	**2004**	**2005**	**2004**
Discount Rate	4.3%	3.4%	4.3%	3.1%
Volatility	102.7%	98.4%	102.7%	100.1%
Average Option Expected Life	5 years	5 years	5 years	5 years

There were no stock option grants in the first three months of 2005, so the discount rate and volatility are the same for the three month period and the six month period. Incremental shares of common stock equivalents are not included in the calculation of net loss per share as the inclusion of such equivalents would be anti-dilutive.

7. COMMITMENTS AND CONTINGENCIES

We have disputed billings and access charges from certain inter-exchange carriers (IXCs) and incumbent local exchange carriers (ILECs). We contend that the invoicing and billings of these access charges are not in accordance with the interconnection, service level, or tariff agreements between us and certain IXCs and ILECs. We have not paid these disputed amounts and management believes that we will prevail in these disputes. At June 30, 2005, the total disputed amounts were approximately $17.8 million. We have accrued for $9.3 million, which represents the access charges that we believe are valid or that may be deemed valid.

We currently have agreements with two long-distance carriers to provide transmission and termination services for all of our long distance traffic. These agreements generally provide for the resale of long distance services on a per-minute basis and contain minimum volume commitments. As a result of not fulfilling all of our volume commitments as outlined in one of these contracts we agreed to pay an increased per minute charge for minutes until the achievement of certain minimum minute requirements. Once we meet the new agreed upon minimum minutes we will revert to the terms of our original agreement. All other terms of the original agreement continue in full force.

On April 15, 2005, Trinsic entered into a Wholesale Advantage Services Agreement with Verizon Services Company on behalf of Verizon s Incumbent Local Exchange Carriers (Verizon ILECs). The Wholesale Advantage Services Agreement will act as a replacement for Trinsic s existing Interconnection Agreements for the provision of UNE-P services in Verizon service areas. As long as Trinsic meets certain volume commitments, Verizon will continue to provide a UNE-P like service at gradually increasing rates for a five year period. The contract contains a take-or-pay clause that is applicable for every month starting in May 2005. The calculation is based on a snapshot of lines we had in service as of March 31, 2005 the baseline volume. If Trinsic is unable to replace lines generated by normal churn, these take-or-pay clause may become effective and significantly raise our cost in the Verizon footprint.

Table of Contents

In connection with certain of our wholesale services agreements, a portion of customers are provisioned using our company code. Therefore, we are the customer of record for the Regional Bell Operating Companies wholesale billing. It is very likely that the state commissions would require us to continue providing services to our wholesale customers for at least a 90-day period, regardless of whether our wholesale relationships continue.

We have agreed to certain service level agreements (SLA s) for providing service under our wholesale agreements. If we were to not fulfill the SLAs after the phase-in period there are certain remedies including but not limited to financial compensation. We have not had to pay or accrue any financial compensation as a result of any SLAs since our inception.

8. RELATED PARTY TRANSACTIONS

On September 29, 2004, we signed an agreement with SipStorm, Inc., a company owned by two of our shareholders and former officers of our company to transfer selected computer hardware, software and intellectual property rights to SipStorm. Relative to the purchase, SipStorm assumed responsibility for certain accounts payable, future maintenance payments and provided a promissory note in the amount of $2.8 million. The promissory note was settled for $250,000 during the second quarter of 2005. The note was collateralized by shares of our common stock owned by the directors of SipStorm and $250,000 reflected its estimated realizable value at the time of the settlement. In anticipation of the settlement, $2.5 million in bad debt expense was booked during the first quarter of 2005.

9. COMPUTATION OF NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Incremental shares of common stock equivalents are not included in the calculation of diluted net loss per share as the inclusion of such equivalents would be anti-dilutive.

Net loss per share is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Basic and diluted net loss per share:				
Net loss	$ (3,257)	$ (11,111)	$ (2,818)	$ (21,494)
Less mandatorily redeemable convertible preferred stock dividends and accretion		(3,626)		(7,991)
Less deemed dividend related to beneficial conversion feature		(47)		(93)
Net loss attributable to common stockholders	$ (3,257)	$ (14,784)	$ (2,818)	$ (29,578)
Weighted average common shares outstanding	55,335,635	7,321,741	55,260,884	7,267,561
Basic and diluted net loss per share	$ (0.06)	$ (2.02)	$ (0.05)	$ (4.07)