INSIGNIA SOLUTIONS PLC
Form 10-Q
May 17, 2004

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 0-27012

Insignia Solutions plc

(Exact name of Registrant as specified in its charter)

England and Wales	**Not applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
41300 Christy Street Fremont California 94538	**Mercury Park, Wycombe Lane Wooburn Green High Wycombe, Bucks HP10 0HH**

United States of America	**United Kingdom**
(510) 360-3700	**(44) 1628-539500**

(Address and telephone number of principal executive offices and principal places of business)

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

As of May 3, 2004, there were 29,141,353 ordinary shares of £0.20 each nominal value, outstanding.

INSIGNIA SOLUTIONS PLC

PART 1 FINANCIAL INFORMATION

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

INSIGNIA SOLUTIONS PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, unaudited)

	March 31, 2004	December 31, 2003
A S S E T S		
Current assets:		
Cash and cash equivalents	$ 2,839	$ 2,212
Restricted cash	20	20
Accounts receivable, net	200	50
Other receivable	1,363	1,153
Tax receivable	436	391
Prepaid royalties		2,185
Prepaid expenses	383	410
Total current assets	5,241	6,421
Property and equipment, net	149	154
Investment in affiliate	75	
Other assets	226	219
	$ 5,691	$ 6,794
L I A B I L I T I E S, R E D E E M A B L E W A R R A N T S		
A N D S H A R E H O L D E R S E Q U I T Y		
Current liabilities:		
Accounts payable	$ 320	$ 468
Accrued liabilities	995	1,239
Note payable		1,000
Deferred revenue	820	1,460
Total current liabilities	2,135	4,167
Redeemable warrants	38	38
Shareholders equity:		
Ordinary shares	9,561	8,111
Additional paid-in capital	63,862	61,898
Common stock subscription		575

Accumulated deficit		(69,444)		(67,534)
Other accumulated comprehensive loss		(461)		(461)
Total shareholders equity		3,518		2,589
	$	5,691	$	6,794

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

3

INSIGNIA SOLUTIONS PLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share amounts, unaudited)

	Three months ended March 31,	
	2004	**2003**
Net revenues:		
License	$ 316	$ 192
Service	3	187
Total net revenues	319	379
Cost of net revenues:		
License	23	115
Service		52
Total cost of net revenues	23	167
Gross profit	296	212
Operating expenses:		
Sales and marketing	816	645
Research and development	811	1,306
General and administrative	591	1,144
Restructuring		326
Total operating expenses	2,218	3,421
Operating loss	(1,922)	(3,209)
Interest income (expense), net	(1)	(1)
Other income (expense), net	(13)	13
Loss before income taxes	(1,936)	(3,197)
Provision for (benefit from) income taxes	(26)	2
Net loss	$ (1,910)	$ (3,199)
Basic and diluted net loss per share	$ (0.07)	$ (0.16)
Weighted average shares and share equivalents:		
Basic and Diluted	28,616	20,089

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

INSIGNIA SOLUTIONS PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands, unaudited)

	Three months ended March 31, 2004		Three months ended March 31, 2003	
Cash flows from operating activities:				
Net loss	$	(1,910)	$	(3,199)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation		26		45
Allowance for doubtful accounts				(22)
Non-cash charge for warrant issuance		349		
Net changes in assets and liabilities:				
Accounts receivable		(150)		556
Other receivables		(1,010)		(3)
Tax receivable		(45)		(4)
Prepaid royalties		2,185		99
Prepaid expenses		27		217
Other assets		(7)		100
Accounts payable		(148)		459
Accrued liabilities		(244)		(132)
Accrued severance				209
Deferred revenue		(840)		(83)
Income tax payable				(4)
Net cash used in operating activities		(1,767)		(1,762)
Cash flows from investing activities:				
Investment in affiliate		(75)		
Purchases of property and equipment		(21)		(1)
Proceeds from release of restricted cash				160
Net cash provided by (used in) investing activities		(96)		159
Cash flows from financing activities:				
Proceeds from issuance of shares, net		1604		
Proceeds from exercise of warrants		389		
Proceeds from note payable				1,000
Proceeds from exercise of stock options and employee stock purchase plan		497		1
Net cash provided by financing activities		2,490		1,001
Net increase (decrease) in cash and cash equivalents		627		(602)
Cash and cash equivalents at beginning of the period		2,212		726
Cash and cash equivalents at end of the period	$	2,839	$	124

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

5

INSIGNIA SOLUTIONS PLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Insignia Solutions plc (Insignia , us or we) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation. Interim results are not necessarily indicative of results for a full year. These condensed consolidated financial statements and notes should be read in conjunction with Insignia s audited consolidated financial statements for the year ended December 31, 2003 and footnotes thereto, included in Insignia s Annual Report on Form 10-K.

During the past 24 months, we have incurred an aggregate loss from operations and negative operating cash flows of $18,512,000 and $11,867,000, respectively. We have undertaken measures to reduce operating expenses and redesign our commercial efforts to adapt to new developments. Assuming the receipt of the remaining $1.3 million of the $6.9 million due from esmertec A.G. (esmertec) under the Asset Purchase Agreement and the Master Distribution and License Agreement, each dated March 4, 2003, and the definitive agreements signed on April 23, 2003, (as well as the Charge Over Intellectual Property, Deed of Release, Assignment of Intellectual Property Rights and Licenses (Deferred IP) all signed on February 13, 2004), we believe that Insignia will have sufficient funds to meet its operating and capital requirements through the end of fiscal year 2004. However, there can be no assurance that we will not require additional funding or that we will be able to obtain additional funding if needed, on acceptable terms or at all. The failure to raise additional funds, if needed, on a timely basis and on sufficiently favorable terms could have a material adverse effect on our business, operating results and financial condition. Insignia s liquidity may also be adversely affected in the future by factors such as an increase in interest rates, inability to borrow without collerateral, availability of capital financing and continued operating losses. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We follow accounting principles generally accepted in the United States of America. We conduct most of our business in U.S. dollars. All amounts included in the financial statements and in the notes herein are in U.S. dollars unless designated £ , in which case they are in British pound sterling. The exchange rates used between the U.S. dollar and the British pound sterling were $1.83 and $1.58 (expressed in U.S. dollars per British pound sterling) at March 31, 2004 and 2003, respectively.

Note 2. Net loss per share

Net loss per share is presented on a basic and diluted basis, and is computed by dividing net loss by the weighted average number of ordinary shares and ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of warrants and stock options (using the treasury stock method). Under the basic method of calculating net loss per share, ordinary equivalent shares are excluded from the computation. Under the diluted method of calculating net loss per share, ordinary equivalent shares are excluded from the computation only if their effect is anti-dilutive.

Calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three months ended March 31,	
	2004	2003
Numerator basic and diluted:		
Net loss	$ (1,910)	$ (3,199)
Denominator calculation of basic loss per share:		
Weighted average number of ordinary shares outstanding	28,616	20,089
Basic net loss per share	$ (0.07)	$ (0.16)
Denominator calculation of diluted loss per share:		
Weighted average number of ordinary shares outstanding	28,616	20,089
Dilutive common equivalent shares		
Weighted average number of ordinary shares outstanding	28,616	20,089
Diluted net loss per share	$ (0.07)	$ (0.16)

The following number of options and warrants have not been included in the calculation of diluted net loss per share because their inclusion would have been anti-dilutive:

	Three months ended March 31,	
	2004	2003
Options	4,299,737	3,308,179
Warrants	1,143,844	4,191,334

Note 3. Stock based compensation

Insignia accounts for stock based employee compensation using the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure an Amendment of FASB Statement No.123 . The following table illustrates the effect on net loss and net loss per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No.123, Accounting for Stock Based Compensation to stock based compensation.

	Three months ended March 31, 2004	Three months ended March 31, 2003
Net loss-as reported	$ (1,910)	$ (3,199)
Less stock based compensation expense determined under fair value based method	(174)	(264)
Net loss-pro forma	$ (2,084)	$ (3,463)
Basic and diluted net loss per share - as reported	$ (0.07)	$ (0.16)
Basic and diluted net loss per share - pro forma	$ (0.07)	$ (0.17)

In accordance with the disclosure provisions of SFAS 123, the fair value of employee stock options granted during the three months ended March 31, 2004 and 2003 was estimated at the date of grant using the Black-Scholes model and the following weighted average assumptions:

	Three months ended March 31, 2004	Three months ended March 31, 2003
Stock Options:		
Volatility range	143-198%	59%
Risk-free interest rate range	1.1-3.2%	1.0-3.1%
Dividend yield	0%	0%
Expected life (years)	4	4
Employee Stock Purchase Plan:		
Volatility range	198%	59%
Risk-free interest rate range	1.1%	1.2%
Dividend yield	0%	0%
Expected life (years)	0.5	0.5

Note 4. New accounting pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 . FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 have been delayed and currently apply to the first fiscal year or interim period beginning after December 15, 2003. We do not have any entities as of March 31, 2004 that will require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

Note 5. Esmertec Agreements

On February 7, 2003, we entered into a loan agreement with esmertec whereby esmertec loaned Insignia $1 million. The loan was made in two installments of $500,000 each on February 13, 2003 and February 26, 2003. The rate of interest on each loan was at prime plus two percent. Accrued interest was due on the last day of each month. The outstanding principal of $1.0 million was paid on January 15, 2004. The accrued interest of $55,161 was paid March 15, 2004. At March 31, 2004, there was no balance outstanding under this agreement.

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) line of business in exchange for $3.5 million payable in installments. Payments under the agreement were $800,000 on April 18, 2003, $800,000 on July 23, 2003, $800,000 on October 15, 2003, $800,000 on January 15, 2004 and $300,000 on April 15, 2004. The assets primarily included the fixed assets, customer agreements and employees related to the JVM line of business. The transaction closed on April 23, 2003. Under the terms of the Agreements, esmertec became the exclusive master distributor of the JVM technology in exchange for $3.4 million in minimum guaranteed royalties through June 30, 2004 at which time, the JVM technology rights will transfer to esmertec. Minimum payments under the license are as follows:

DUE DATE	PAYMENT	
April 30, 2003	$	250,000
May 15, 2003	$	200,000
July 15, 2003	$	200,000
July 31, 2003	$	250,000
August 15, 2003	$	200,000
October 15, 2003	$	200,000
October 31, 2003	$	250,000
November 15, 2003	$	200,000
January 15, 2004	$	200,000
January 31, 2004	$	250,000
February 15, 2004	$	200,000
April 15, 2004	$	200,000
May 15, 2004	$	200,000
July 15, 2004	$	200,000
August 15, 2004	$	200,000
October 15, 2004	$	200,000
Total	$	3,400,000

As of March 31, 2004, the minimum payments under this agreement have been paid in a timely manner.

In addition, we can earn up to an additional $4.0 million over the next three years based on a percentage of esmertec s future sales of the JVM product. Additionally, the parties have entered into a cooperative agreement to promote Insignia s Secure System Provisioning (SSP) software product to esmertec s mobile platform customers. The Agreements provide for esmertec to manage the existing Insignia JVM customer relationships and license the Insignia and esmertec technologies to the then combined customer base and business partners.

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 agrement with our U.K. building landlord 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 the prepaid royalities to esmertec.

The Jeode platform had been our principal product line since the third quarter of 1999. With the completion of the sale of our JVM business to esmertec in April 2003, Insignia s sole product line consists of its SSP products for the mobile handset and wireless carrier industry. We began shipment of our SSP product to customers in the fourth quarter of 2003.

Note 6. Commitments and Contingencies

In June 2001, Insignia and Sun Microsystems, Inc. (Sun) entered into an addendum (the Addendum) to the Distribution Agreement relating to distribution of products to an Insignia customer. In addition, in September 2001, the two companies entered into Amendment No. 3 (the Amendment) to the Technology License and Distribution Agreement (the Distribution Agreement) between the two companies. The Amendment and the Addendum each require Insignia to make non-refundable royalty prepayments to Sun. A total of $7.0 million of prepaid royalties were paid to Sun under these agreements through the third quarter of 2002. There are no additional royalty prepayments due to Sun under this agreement. The amended Distribution Agreement expires June 30, 2004. Any unused royalty prepayments outstanding on June 30, 2004 will be forfeited. The prepaid royalty balance as of February 13, 2004 was $2.2 million. The entire prepaid royalty balance was transferred to esmertec under the final asset purchase agreement. Sun agreed to the transfer to esmertec effective as of June 14, 2003.

Guarantee Agreements

Insignia, as permitted under Delaware law and in accordance with our Bylaws, indemnifies our officers and directors for certain events or occurrences, subject to certain limits, while the officer is or was serving at our request in such capacity. The term of the indemnification period is for the officer s or director s lifetime. The maximum amount of potential future indemnification is unlimited; however we do have a Director and Officer Insurance Policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of the insurance policy coverage we believe the fair value of these indemnification agreements is minimal.

In our sales agreements, we typically agree to indemnify our customers for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties for the products, as delivered by Insignia. The terms of these indemnification provisions are generally perpetual. The maximum amount of potential future indemnification is unlimited; however, we normally retain the right to limit the remedies the customer may receive. We have not paid any amounts to settle claims or defend lawsuits.

Insignia, on a limited basis, has granted price protection. The terms of these agreements are generally perpetual. We have not recorded any liabilities for these potential future payments either because they are not probable or we have yet to incur the expense.

Insignia typically warrants the binary version and the source code licenses of its software product against defects in material and workmanship under normal use and service for a period of ninety days. There is no warranty accrual recorded because potential future payments either are not probable or we have yet to incur the expense.

Note 7. Segment reporting

Insignia operates in a single industry segment providing software technologies that enable mobile operators and phone manufacturers to update the firmware of mobile devices using standard over-the-air data networks. In the first quarter of 2004, revenues received from sales of SSP products and from esmertec with regard to our percentage of the revenue share program from sales of the Jeode product line accounted for 71% and 29% of the revenue, respectively. In the first quarter of 2004, one United States customer, Insignia Asia and esmertec accounted for 47%, 24% and 22% of total revenues, respectively. In the first quarter of 2003, one customer accounted for 34% of total revenues. No other customer accounted for 10% or more of Insignia s total revenues during the first quarter of 2004 or 2003. Sales to customers outside the United States, derived mainly from customers in Europe and Asia, represented approximately 47% of total revenues in the three months ended March 31, 2004, and 12% of total revenues in the three months ended March 31, 2003.

Note 8. Equity transactions and warrants

On January 5, 2004, we issued 2,262,500 ordinary shares in ADS form at a price of $0.80 to a total of 10 investors. We also issued warrants to purchase 565,625 ADSs to the investors at an exercise price of $1.04. The warrants are exercisable immediately and expire January 5, 2009. We received $1.81 million less offering expenses totaling approximately $0.2 million in this transaction. We also issued warrants to purchase 108,562 ADSs to the two principals of the placement agent, which are exercisable at a price of $1.09 per share. These warrants are exercisable immediately and expire January 5, 2009.

In January 2004, new ordinary shares of 766,667 were issued to Fusion Capital pursuant to a binding commitment to deliver such shares entered into in November 2003.

The following table summarizes the warrant activity during the three months ended March 31, 2004.

	Warrants outstanding and exercisable	**Warrants outstanding exercise price**
Balance, December 31, 2003	739,657	$4.77 - $6.00(1)
Granted	874,187	$1.03 - $1.09
Exercised	(470,000)	$0.85
Balance, March 31, 2004	1,143,844	$1.04-$6.00(1)

(1) The $6.00 warrants are the lesser of $6.00 or 90% of 10-day average market value

Note 9. Related party transaction

During the three months ended March 31, 2003, Insignia recognized license revenue of $22,000 from Phoenix Technologies. The CEO of Phoenix Technologies was a director on Insignia s board of directors from March 1997 until March 2001.

On February 13, 2001, we entered into a promissory note with Richard M. Noling, then President and Chief Executive Officer of Insignia whereby Mr. Noling borrowed $150,000 from the U.S.-based subsidiary of Insignia. The promissory note was due in three equal installments, on each annual anniversary from the date of the note. Interest accrued on the unpaid principal balance at a rate per annum equal to the prime lending rate of interest as listed in the Wall Street Journal plus 1%. Accrued interest was due and payable monthly in arrears on the last calendar day of each month, beginning March 31, 2001. The note was amended on January 24, 2002 to extend the first and subsequent installments by one year. The first installment became due on February 13, 2003. Mr. Noling s employment was terminated with Insignia effective February 14, 2003. We forgave, effective March 6, 2003, the balance of the loan, $128,154, in lieu of any bonus compensation.

On December 31, 2003, Insignia entered into a joint venture agreement with J Tek Corporation to form Insignia Asia Chusik Hoesa (Insignia Asia). During the three months ended March 31, 2004, Insignia recognized license revenue of $75,000 from Insignia Asia.

Note 10. Restructuring

Statement of Financial Accounting Standards No. 146,   Accounting for Exit or Disposal Activities   requires restructuring charges to be recorded at the commitment date. On February 11, 2003, we announced a restructuring of the organization to focus on the SSP technology. The restructuring charges for the quarters ended March 31, June 30, September 30 and December 31, 2003 were $326,000, $173,000, ($19,000) and $18,000, respectively, for employee termination benefits. Restructuring charges paid in the first through fourth quarters of 2003 were $117,000, $167,000, $109,000 and $115,000, respectively. There were no accrued restructuring charges as of December 31, 2003 and March 31, 2004.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Part I - Item 1 of this Form 10-Q and the Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in Insignia s Form 10-K for the year ended December 31, 2003 (the Form 10-K).

This Form 10-Q contains forward-looking statements. Words such as anticipates, believes, expects, future, and intends, and similar expressions are used to identify forward-looking statements. These forward-looking statements concern matters which include, but are not limited to, the revenue model and market for the SSP product line, the features, benefits and advantages of the SSP platform, international operations and sales, gross margins, spending levels, the availability of licenses to third-party proprietary rights, business and sales strategies, matters relating to proprietary rights, competition, exchange rate fluctuations and our liquidity and capital needs. 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. In addition to the factors discussed above, among other factors that could cause actual results to differ materially are the following: the demand for the SSP platform; the performance and functionality of SSP technology; our ability to deliver products on time, and market acceptance of new products or upgrades of existing products; the timing of, or delay in, large customer orders; continued availability of technology and intellectual property license rights; product life cycles; quality control of products sold; competitive conditions in the industry; economic conditions generally or in various geographic areas; and the other risks listed from time to time in the reports that we file with the U.S. Securities and Exchange Commission. 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.

The following table sets forth the unaudited condensed consolidated results of operations as a percentage of total revenues for the three month periods ended March 31, 2004 and 2003.

	Three months ended March 31,	
	2004	**2003**
Net revenues:		
License	99.1%	50.7%
Service	0.9%	49.3%
Total net revenues	100%	100.0%
Cost of net revenues:		
License	7.2%	30.4%
Service	0%	13.7%
Total cost of net revenues	7.2%	44.1%
Gross profit	92.8%	55.9%
Operating expenses:		
Sales and marketing	255.8%	170.2%
Research and development	254.2%	344.6%
General and administrative	185.3%	301.9%
Restructuring	0.0%	86.0%
Total operating expenses	695.3%	902.7%
Operating loss	(602.5)%	(846.8)%
Interest income (expense), net	(0.3)%	(0.2)%
Other income (expense), net	(4.1)%	3.4%
Loss before income taxes	(606.9)%	(843.6)%
Provision for (benefit from) income taxes	(8.2)%	0.5%
Net loss	(598.7)%	(844.1)%

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 Machine (EVM) technology.

During 2001, we began development of a range of products (Secure System Provisioning or SSP products) for the mobile phone and wireless operator industry. These SSP products build 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 JVM product line in April 2003, our sole product line consists of our SSP product. We shipped our first SSP product in December 2003.

Our operations outside of the United States are primarily in the United Kingdom, where part of our research and development operations and our European sales activities are located. We sell our SSP platform directly to customers or through our hosted partners such as Metrowerks and Accord Customer Care Solutions. Our revenues from customers outside the United States are derived primarily from Europe and Asia and are generally affected by the same factors as our revenues from customers in the United States. The operating expenses of our operations outside the United States are mostly incurred in Europe and relate to our research and development and European sales activities. Such expenses consist primarily of ongoing fixed costs and consequently do not fluctuate in direct proportion to revenues. Our revenues and expenses outside the United States can fluctuate from period to period based on movements in currency exchange rates. Historically, movements in currency exchange rates have not had a material effect on our revenues.

We operate with the U.S. dollar as our functional currency, with a majority of revenues and operating expenses denominated in U.S. dollars. Pound sterling exchange rate fluctuations against the dollar can cause U.K. expenses, which are translated into dollars for financial statement reporting purposes, to vary from period-to-period.

The Current Economic Environment

The economic climate in which we operate has been difficult over the last three years, and information technology (IT) spending has decreased dramatically. This has had an effect on our ability to generate new license fees, as IT budgets have been reduced or frozen and expenditures like those required to purchase some of our products have been quite limited. We cannot provide any assurance that these pressures on IT spending will ease, or that the general economic climate will improve. Continued competitive pressure and a weak economy could have a continuing pronounced effect on our operating results. We have undertaken a variety of cost reduction measures designed to bring our operating expenses in line with our perceptions of the business climate, including workforce reductions.

Critical accounting policies and estimates

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. These estimates affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these judgments are subject to an inherent degree of uncertainty. The most significant estimates and assumptions relate to revenue recognition, the recoverability of prepaid royalties, and the adequacy of allowances for doubtful accounts. Actual amounts could differ from these estimates.

Revenue recognition

We recognize revenue in accordance with Statement of Position 97-2 (SOP 97-2), Software Revenue Recognition , as amended. SOP 97-2 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management s judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

At the time of the transaction, we assess whether the fee associated with our revenue transaction is fixed or determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after the normal payment terms, which are 30 to 90 days from invoice date, we account for the fee as not being fixed or determinable. In these cases, we recognize revenue on the earlier of due date or cash collected.

We assess collectibility based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we will defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

For all sales, we use either a signed license agreement or a binding purchase order (primarily for maintenance renewals) as evidence of an arrangement.

For arrangements with multiple obligations (for example, undelivered maintenance and support), we will allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements, which is specific to us. This means that we will defer revenue equivalent to the fair value of the undelivered elements. Fair value for the ongoing maintenance and support obligation is based upon separate sales of renewals to other customers or upon renewal rates quoted in the contracts. Fair value of services, such as training or consulting, is based upon separate sales by us of these services to other customers.

Our arrangements do not generally include acceptance clauses. However, if an arrangement includes an acceptance provision, acceptance occurs upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

We recognize revenue for maintenance services ratably over the contract term. Our training and consulting services are billed based on hourly rates, and we will generally recognize revenue as these services are performed. However, at the time of entering into a transaction, we will assess whether or not any services included within the arrangement require us to perform significant work either to alter the underlying software or to build additional complex interfaces so that the

software performs as the customer requests. If these services are included as part of an arrangement, we recognize the entire fee using the percentage of completion method. We estimate the percentage of completion based on our estimate of the total costs estimated to complete the project as a percentage of the costs incurred to date and the estimated costs to complete.

Accounts receivable and allowance for doubtful accounts

We perform ongoing credit evaluations of our customers and will adjust credit limits based upon payment history and the customer s current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain an allowance for estimated credit losses based upon historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within expectations and the allowance established, we cannot guarantee that we will continue to experience the same credit loss rates as in the past. Since our accounts receivable are concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of accounts receivables and future operating results.

The preparation of financial statements requires us to make estimates of the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

Prepaid royalties

Our agreements with licensors sometimes require us to make advance royalty payments or pay royalties based on product sales. Prepaid royalties are capitalized and amortized as cost of sales based on the contractual royalty rate based on actual net product sales. We continually evaluate recoverability of prepaid royalties and, if necessary, will charge to cost of sales any amount that we deem unlikely to be recoverable in the future. The prepaid royalties carried on the balance sheet for the quarter ended March 31, 2003 were subject to the terms of the Distribution Agreement between Sun and Insignia, which required us to use these prepaid licenses before June 30, 2004. The title to these prepaid royalties was transferred to esmertec upon executing the Limited Assignment of Rights of Technology License and Distribution Agreement, on February 13, 2004.

Revenues

	Three months ended March 31,			
	2004		**2003**	
	(in thousands)			
License revenue	$	316	$	192
Service revenue		3		187
Total net revenue	$	319	$	379

17

The SSP product line was our sole business for the first quarter of 2004 and the Jeode product line was our primary business for the first quarter of 2003. Revenue from the Jeode product line was derived from four main sources: (1) the sale of a development license, (2) the sale of annual maintenance and support contracts/services, (3) prepaid royalties and transactional occurrence fees based on shipments of products that include Jeode technology, and (4) nonrecurring engineering activities. Revenue from the SSP product line is derived from a combination of sources including (1) initial licensing fees, (2) transactional occurrence fees, (3) support and maintenance fees, and (4) engineering service fees.

The 16% decrease in total revenues from the first quarter of 2003 to the first quarter of 2004 was primarily due to decreased service revenues relating to the Jeode platform product line as a result of the sale of the JVM product line. The Jeode platform accounted for 29% and 95% of total revenue for the three months ended March 31, 2004 and 2003, respectively. Future revenue from Jeode will be recognized as a percentage of the revenue share program with esmertec from the sale of the JVM product line. Jeode revenue is expected to continue to decrease from prior quarters.

License revenue and service revenue accounted for 99% and 1%, respectively, of total revenues in the first quarter of 2004. In the first quarter of 2003, license revenue and service revenue accounted for 51% and 49%, respectively.

The increase in license revenues from the first quarter of 2003 to the first quarter of 2004 was primarily due to revenues generated from our new SSP product initially shipped in December 2003. Jeode license revenues for the three months ended March 31, 2004 (from our revenue share program with esmertec) and the three months ended March 31, 2003 accounted for 29% and 90% of total license revenues, respectively.

The 98% decrease in service revenues from the first quarter of 2003 to the first quarter of 2004 was primarily due to decreased Jeode engineering and Jeode support contracts. Jeode service revenues for the three months ended March 31, 2004 and the three months ended March 31, 2003 was 0% and 100% of total service revenues, respectively.

Sales to distributors and OEM s representing more than 10% of total revenue in each period accounted for the following percentages of total revenues.

	Three months ended March 31,	
	2004	**2003**
Distributors:		
Hewlett Packard		34%
All Distributors:	93%	35%
OEM s:		
All OEM s	7%	61%

Sales to customers outside the United States, derived mainly from customers in Europe and Asia, represented approximately 53% of total revenues in the three months ended March 31, 2004 and 10% of total revenues in the three months ended March 31, 2003.

18

Cost of revenues and gross margin

	Three months ended March 31,			
	2004		2003	
	(in thousands, except percentages)			
Cost of license revenue	$	23	$	115
Gross margin: license revenue		93%		40%
Cost of service revenue	$	0	$	52
Gross margin: service revenue		100%		72%
Total cost of revenues	$	23	$	167
Gross margins: total revenues		93%		56%

Cost of license revenue is mainly comprised of royalties to third parties. Cost of service revenue includes costs associated with nonrecurring engineering activities and end-user support under maintenance contracts.

We believe that the significant factors affecting the Jeode platform gross margin include pricing of the development license, pricing of the unit usage and royalties paid to third parties such as Sun Microsystems, Inc. (Sun). In early 1999, we signed a five-year agreement with Sun under which Sun established us as an authorized virtual machine provider. Under this agreement, we are required to pay Sun a per unit royalty on each Jeode platform-enabled smart device shipped by our customers, plus a royalty on all development licenses put in place between our customers and us. In the third quarter of 2001, we amended our license agreement with Sun. The amendment expanded the scope of the licensed technology, changed the royalty rate, limited the royalty obligations solely to units licensed, established required prepaid royalties and extended the expiration date of the contract from March 2004 to June 2004. The title to these prepaid royalties was transferred to esmertec in February 2004. The increase in license revenue gross margins in the first quarter of 2004 was due to higher gross margins on our recently launched SSP product line compared to the lower product gross margins in the first quarter of 2003 as a result of sharing the March 2003 JVM revenue with esmertec.

Gross margin for service revenue is impacted by the level and pricing terms of nonrecurring engineering activities, which can vary from customer to customer, from contract to contract and based on the level of maintenance contracts sold. Gross margin for service revenue increased in the first quarter of 2004 to 100% from 72% in the same period of 2003 due to revenue received from a service and maintenance contract in the first quarter of 2004.

Operating expenses

	Three months ended March 31, 2004	2003
	(in thousands, except percentages)	
Sales and marketing	$ 816	$ 645
Percentage of total revenues	256%	170%
Research and development	$ 811	$ 1,306
Percentage of total revenues	254%	345%
General and administrative	$ 591	$ 1,144
Percentage of total revenues	185%	302%

Sales and marketing expenses consist primarily of personnel and related overhead costs, salesperson commissions, advertising and promotional expenses and trade shows. Sales and marketing expenses increased by 27% in the quarter ended March 31, 2004 from the quarter ended March 31, 2003. The primary reason for the increase was a non-cash charge of $349,000 for warrants that were issued to outside partners supporting the Company s SSP product launch. Without the $349,000 charge in the first quarter of 2004, sales and marketing expenses would have been $467,000, which was a decrease of 28% from the first quarter of 2003, primarily as a result of reducing salary related costs in sales and marketing as a result of transferring the JVM product line expenses to esmertec in March 2003. Excluding the warrant charge of $349,000 in the first quarter of 2004, we anticipate a moderate increase in sales and marketing expense in the near term as we continue to launch our new SSP product line.

Research and development expenses consist primarily of personnel costs, overhead costs relating to occupancy and equipment depreciation. Research and development expenses decreased by 38% in the three months ended March 31, 2004 compared to the same period in 2003. The primary reason for the decrease was a reduction in salaries and personnel related costs in the first quarter of 2004 as a result of transferring the JVM product line expenses and related headcount to esmertec in March 2003. Research and development expenses are expected to remain approximately the same in the near term.

General and administrative expenses consist primarily of personnel and related overhead costs for finance, information systems, human resources and general management. General and administrative expenses decreased by 48% in the three months ended March 31, 2004 compared to the same period of 2003. The decrease was primarily due to a reduction in salaries, personnel related costs and facility costs. Salaries and personnel costs decreased due to a reduction in force in the quarter ended March 31, 2003 and the transfer of the JVM product line expenses effective March 4, 2003. General and administrative expenses are expected to remain approximately the same in the near term.

Restructuring

	Three months ended March 31,	
	2004	2003
	(in thousands, except percentages)	
Restructuring	$ 0	$ 326
Percentage of total revenues	0%	86%

On February 11, 2003, we announced a restructuring of the organization to focus on the SSP technology. Restructuring expenses consisted of severance payments paid in the quarter ended March 31, 2003 of $117,000 and continuing severance payments of $209,000 in the quarters ended June 30, 2003 and September 30, 2003. Restructuring expenses represented 86% of total revenues for the quarter ended March 31, 2003.

Interest income (expense), net

	Three months ended March 31,	
	2004	2003
	(in thousands, except percentages)	
Interest income (expense), net	$ (1)	$ (1)
Percentage of total revenues		

Net interest expense was $1,000 for the first quarter of 2004 and remained the same as it was in the three months ended March 31, 2003. We anticipate interest income (expense), net to increase in the near term, as a result of paying the note payable due to esmertec in the first quarter of 2004 and increased cash balances.

Other income (expense), net

	Three months ended March 31,			
	2004		2003	
	(in thousands, except percentages)			
Other income (expense), net	$	(13)	$	13
Percentage of total revenues		(4)%		3%

Net other income (expense) decreased from income of $13,000 in the three months ended March 31, 2003 to an expense of $13,000 in the three months ended March 31, 2004, primarily reflecting foreign exchange gains or losses in the respective periods.

For the three months ended March 31, 2004 approximately 100% of our total revenues and 66% of our operating expenses were denominated in U.S. dollars. Most of our remaining expenses are British pound sterling denominated and consequently we are exposed to fluctuations in British pound sterling exchange rates. There can be no assurance that such fluctuations will not have a material effect on our results of operations in the future. We did not enter with any currency option hedge contracts in 2003 or the first quarter of 2004.

We have, at times, an investment portfolio of fixed income securities that are classified as available-for-sale-securities. These securities, like all fixed income instruments, are subject to interest rate risk and will decrease in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities.

Provision for (benefit from) for income taxes

	Three months ended March 31,			
	2004		2003	
	(in thousands)			
Provision for (benefit from) for income taxes	$	(26)	$	2
Effective income tax rate		(1)%		

Our benefit from income taxes of $26,000 for the three months ended March 31, 2004 primarily represented a refund received from the United Kingdom for research and development claims.

The provision for income taxes for the three months ended March 31, 2003 primarily represented payments to U.S. tax authorities for annual filing fees. We have recorded a full valuation allowance against all deferred tax assets, primarily comprised of net operating losses, on the basis that significant uncertainty exists with respect to their realization.

Effective 2002 and retroactive to 2000, research and development expenditures incurred in the United Kingdom qualified for a tax credit. The tax credit does not offset tax liability but rather is a refund. The estimated refund for 2003 was $436,000 and was recorded as a tax receivable on the balance sheet.

Liquidity and capital resources

	March 31,			
	2004		2003	
	(in thousands)			
Cash, cash equivalents and restricted cash	$	2,859	$	214
Working capital (deficit)	$	3,106	$	(652)
Net cash used in operating activities for the three month period	$	(1,767)	$	(1,762)

We have transitioned our product focus from the Jeode product to our SSP product line. This change in product focus has resulted in a redirection of available resources from Insignia s historical revenue base towards the development and marketing efforts associated with the SSP product. Cash used in operating activities in the first quarter of 2004 totaled $1,767,000 compared to $1,762,000 for the same period in 2003. For the three months ended March 31, 2004, cash used in operating activities resulted primarily from a net loss of $1,910,000, a decrease in deferred revenue of $840,000, a decrease in accounts payable and accrued liabilities of $392,000, and an increase in accounts receivable and other receivable of $1,160,000. These were partially offset by a decrease in prepaid royalities of $2,185,000 and a non-cash charge for warrants in the amount of $349,000.

Cash used in investing activities for the three months ended March 31, 2004 was $96,000, which consisted of an investment in an affiliate and purchases of property and equipment.

Cash provided by financing activities for the three months ended March 31, 2004 was $2,490,000, resulting from share issuance in the amount of $1,604,000, and proceeds from the exercise of stock options and warrants amounting to $886,000.

Our cash, cash equivalents and restricted cash were $2,859,000 at March 31, 2004, an increase of $627,000 from $2,232,000 at December 31, 2003. At March 31, 2004, we had a working capital surplus of $3,106,000. The principal source of working capital came as a result of the issuance of shares. At March 31, 2003, we had a working capital deficit of $652,000. Capital additions totaled $21,000 and $1,000 for the three months ending March 31, 2004 and 2003, respectively. We have no material commitments for capital expenditures or strategic investments. Our commitments for expenditures consist of building leases in the U.K. and U.S.

As of March 31, 2004, we had the following contractual cash obligations (including operating lease obligations that were restructured pursuant to the sale of the JVM product line) (in thousands):

		Operating leases
Year ending December 31,		
2004 (April 1, 2004 through December 31, 2004)	$	222
2005		282
2006		193
2007		165
2008		165
Thereafter		762
	$	1,789

As of March 31, 2004, two customers accounted for 100% of our total accounts receivable.

In June 2001, Insignia and Sun Microsystems, Inc. (Sun) entered into an addendum (the Addendum) to the Distribution Agreement relating to distribution of products to an Insignia customer. In September 2001, the two companies entered into Amendment No. 3 (the Amendment) to the Technology License and Distribution Agreement (the Distribution Agreement). The Amendment and the Addendum each required us to make non-refundable royalty prepayments to Sun. A total of $7.0 million prepaid royalties were paid to Sun under the Distribution Agreement through the second quarter of 2002. There are no additional required royalty prepayments due to Sun under this agreement. The title to these prepaid royalties was transferred to esmertec upon executing the Limited Assignment of Rights of Technology License and Distribution Agreement which occurred on February 13, 2004.

On October 17, 2002, we entered into a securities subscription agreement (Agreement) with Fusion Capital Fund II, LLC (Fusion Capital), pursuant to which Fusion Capital agreed to purchase, on each trading day following the effectiveness of a registration statement covering the American Depository Shares (ADSs) to be purchased by Fusion Capital, $10,000 of our ADSs up to an aggregate of $6.0 million over a period of 30 months. The purchase price of the ADSs will be equal to a price based upon the future market price of the shares without any fixed discount to the market price. In order to be in compliance with Nasdaq rules, we cannot sell our ordinary shares to Fusion Capital at a price below $0.38, which represented the greater of the book value per share of our ordinary shares as of September 30, 2002 or the closing sale price per share of our ADSs on October 16, 2002.

In November 2003, Fusion made a binding election to purchase an aggregate of 1,766,667 ADSs for an aggregate purchase price of $1,325,000. In November 2003, we issued 1,000,000 ADSs to Fusion for an aggregate purchase price of $750,000. Fusion s delivery of the additional amount of $575,000 in November 2003 constituted a binding commitment to purchase the remaining 766,667 shares at such time as Fusion s beneficial ownership of Insignia became less than 9.9%, and the balance of these 766,667 shares were issued to Fusion in January 2004.

Fusion also purchased an aggregate of 2,000,000 ADSs on exercise of warrants. Unless an event of default occurs under the Agreement, these shares must be held by Fusion Capital until the earlier of 30 months from the date of the Agreement or the date the Agreement is terminated.

Based upon our current forecasts and estimates of targets for revenues and accounts receivable collections, our current cash and cash equivalents together with cash generated from on-going operations and other liquid sources of cash (including cash generated from the sale of the Jeode product line to esmertec), we believe that Insignia will have sufficient funds to meet its operating

23

and capital requirements through the end of 2004. If cash currently available from all sources is insufficient to satisfy our liquidity requirements, we may seek additional sources of financing, including selling additional equity or debt securities. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights, preferences and privileges senior to holders of our shares, and the terms of such securities could impose restrictions on our operations. The sale of additional equity or debt securities could result in additional dilution to our shareholders. We may not be able to obtain additional financing on acceptable terms, if at all. If we are unable to obtain additional financing as and when needed and on acceptable terms, we may be required to reduce the scope of our planned sales, marketing and product development efforts, which could jeopardize our business.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 . FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 have been delayed and currently apply to the first fiscal year or interim period beginning after December 15, 2003. We do not have any entities as of March 31, 2004 that will require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

Risk Factors

In addition to the other information in this report, the following factors should be considered carefully in evaluating our business and prospects:

We may need additional financing to sustain our operations.

We had working capital of $3.1 million at March 31, 2004, and our cash, cash equivalents, and restricted cash totaled $2.9 million at March 31, 2004. We had an operating cash flow deficit of $1.8 million for the three months ended March 31, 2004 and an operating cash flow deficit of $1.8 million for the three months ended March 31, 2003. The sale of our JVM product line to esmertec is currently expected to provide cash of $1.3 million during the last three quarters of 2004. Based upon our current forecasts and estimates, our current cash and cash equivalents together with cash generated from on-going operations and other liquid sources of cash (including the cash generated from the sale of the Jeode product line to esmertec), we believe that Insignia will have sufficient funds to meet its operating and capital requirements through the end of 2004. If cash currently available from all sources is insufficient to satisfy our liquidity requirements, we may seek additional sources of financing including selling additional equity or debt securities. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights, preferences and privileges senior to holders of our shares, and the terms of such securities could impose restrictions on our operations. The sale of additional equity or debt securities could result in additional dilution to our shareholders. The failure to raise additional funds on a timely basis and on acceptable terms, if at all, would have a material adverse effect on our business, operating results and financial condition.

We only have the right to receive $10,000 per trading day, up to an aggregate of $6.0 million over a period of 30 months under the agreement with Fusion Capital unless our stock price equals or exceeds $1.00, in which case the daily amount may be increased, at the option of Insignia, as the price of our shares increases. Since we initially registered 10,000,000 shares for sale by Fusion Capital (in addition to 2,000,000 shares issued on exercise of warrants held by Insignia), the selling price of our shares to Fusion Capital will have to average at least $0.60 per share for us to receive the maximum proceeds of $6.0 million without registering additional shares.

In addition, in connection with our private placement of ADSs in January 2004, we agreed not to draw down on our Fusion equity line until July 5, 2004 and also agreed not to sell shares to other third parties below a certain price until that date.

The extent to which we rely on Fusion Capital as a source of funding will depend on a number of factors including our financial performance and ability to generate revenues, the prevailing market price of our shares and the extent to which we are able to secure working capital from other sources. If obtaining sufficient financing from Fusion Capital were to prove prohibitively expensive, we may need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the full $6.0 million under the securities subscription agreement with Fusion Capital, we may still need additional capital to implement our business, operating and development plans.

If our stock price does not exceed $1.00 per share or we fail to meet other listing requirements, we could be delisted from Nasdaq.

During the three months ended March 31, 2004, the closing price of our shares ranged from a high of $3.34 to a low of $0.91. In 2003, we transferred the listing of our shares from the Nasdaq National Market to the Nasdaq SmallCap Market. Under the rules of the Nasdaq Stock Market, our closing bid price must remain above $1.00 per share for continued quotation of our shares on the Nasdaq SmallCap Market. In order to maintain our listing on the Nasdaq SmallCap Market, we are also required to have total shareholders equity of at least $2.5 million. As of March 31, 2004, our shareholders equity was $3.5 million. To the extent our shareholders equity declines, or the closing bid price of our shares falls below $1.00 for the requisite period, our shares could be delisted from the Nasdaq SmallCap Market, which could adversely affect the liquidity of the market for our shares and our ability to raise additional funds.

The sale of our shares to Fusion Capital may cause dilution, and the sale of the shares by Fusion Capital could cause the price of our shares to decline.

The subscription price for the shares to be issued to Fusion Capital pursuant to the securities subscription agreement with Fusion Capital will fluctuate based on the price of our shares. All shares sold to Fusion Capital under the securities subscription agreement will be freely tradable. Fusion Capital may sell none, some or all of the shares purchased from us at any time. We expect that the shares to be sold to Fusion Capital will be sold over a period of up to 30 months from the effective date of the registration statement filed in connection with the transaction.

Depending upon market liquidity at the time, a sale of such shares at any given time could cause the trading price of our shares to decline. The sale of a substantial number of shares, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

We may never achieve profitability if our SSP product line does not reach desired sales goals.

Our future performance depends upon sales of products within our SSP product line. Revenues from our revenue sharing program with esmertec related to the Jeode product line accounted for 29% of our total revenue for the three months ended March 31, 2004, and we expect revenues from this revenue sharing program to decrease in the future. As a result, the SSP product line is our only product line and we expect to rely upon sales of the SSP product for our revenue in the future. We only began shipping the SSP product in December 2003 and have achieved only minimal sales to date. SSP may not achieve or sustain market acceptance or provide the desired revenue levels.

The long and complex process of licensing our SSP product makes our revenue unpredictable.

Our revenue is dependent upon our ability to license the SSP product to third parties. Licensing our SSP product is expected to be a long and complex process, which could take longer than the typical six to nine months for our Jeode product. Before committing to license our products, potential customers must generally consider a wide range of issues, including product benefits, infrastructure requirements, ability to work with existing systems, functionality and reliability. The process of entering into a development license with a company typically involves lengthy negotiations. Because of the sales cycle, it is difficult for us to predict when, or if, a particular prospect might sign a license agreement. Development license fees may be delayed or reduced because of this process. We only began shipping the SSP product in December 2003 and have achieved only minimal sales to date. We have limited history with sales initiatives for new products.

We rely on third parties for software development tools, which we distribute with some of our products

We license software development tool products from other companies to distribute with some of our products. These third parties may not be able to provide competitive products with adequate features and high quality on a timely basis or to provide sales and marketing cooperation. Further, our products compete with products produced by some of our licensors. When these licenses terminate or expire, continued license rights might not be available to us on reasonable terms. We might not be able to obtain similar products to substitute into our tool suites.

We have a history of losses and we must generate significantly greater revenue if we are to achieve profitability.

We have experienced operating losses in each quarter since the second quarter of 1996. To achieve profitability, we will have to increase our revenue significantly. Our ability to increase revenues depends upon the success of our SSP product line. We only began shipping the SSP product in December 2003 and have achieved only minimal sales to date.

We must continue to invest in our sales and marketing infrastructure, even though our revenues from sales of our SSP product have not begun to scale.

For the three months ended March 31, 2004 and 2003 we spent 256% and 170%, respectively, of our total revenues on sales and marketing. We expect to continue to incur disproportionately high sales and marketing expenses in the future. To market SSP effectively, we must develop client and server channel markets. We will continue to incur the expenses for a sales and marketing infrastructure before we recognize significant revenue from sales of the product. Because customers in the mobile device market tend to remain with the same vendor over time, we believe that we must devote significant resources to each potential sale. If potential customers do not design our products into their systems, the resources we have devoted to the sales prospect would be lost. If we fail to achieve and sustain significant increases in our quarterly sales, we may not be able to continue to increase our investment in these areas. With increased expenses, we must significantly increase our revenues if we are to become profitable.

If our new products or product enhancements fail to achieve customer acceptance, or if we fail to manage product transitions, our business reputation will likely suffer and revenues may decline.

The market for mobile devices is fragmented and characterized by technological change, evolving industry standards and rapid changes in customer requirements. Our existing products will become less competitive or obsolete if we fail to introduce new products or product enhancements that anticipate the features and functionality that customers demand. The success of our new product introductions will depend on our ability to:

- accurately anticipate industry trends and changes in technology standards;
- complete and introduce new product designs and features in a timely manner;
- continue to enhance our existing product lines;
- respond promptly to customers requirements and preferences.

The introduction of new or enhanced products also requires that we manage the transition from older products to minimize disruption in customer ordering patterns. We have had difficulty managing the transition from older products in the past. For example, between 1995 and 1999, we transitioned from our SoftWindows product line to our NTRIGUE product line and began preparations for our Jeode product line. During this same period our yearly revenues dropped from a high of $55.1 million in 1995 to a low of $6.8 million in 1999. The decrease in revenues was partly because we did not timely introduce new products which could compensate for the decreasing demand for our SoftWindows product line. Development delays are commonplace in the software industry. We have experienced delays in the development of new products and the enhancement of existing products in the past and are likely to experience delays in the future. We may not be successful in developing and marketing, on a timely basis or at all, competitive products, product enhancements and new products that respond to technological change, changes in customer requirements and emerging industry standards.

Our business strategy is focused on our sole product line, the SSP product line.

In addition, we also face significant risks associated with the development and future deployment of our SSP products and the successful execution of the related business strategy. With the sale of the Jeode product line to esmertec, the SSP product is our sole product line. We only began shipping the SSP product in December 2003 and have achieved only minimal sales to date. We have limited history with sales initiatives for new products. Additionally, the sales cycle for the

SSP products is expected to take longer than the typical six to nine months cycle of the Jeode product.

Our targeted market is highly competitive.

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, DoOnGo, Openwave and Red Bend.

If these competitors develop products that are cheaper or provide better performance or functionality than our SSP product line, our market share will drop. Many of our current competitors and potential competitors have greater resources than we do, and we might not be able to compete successfully against these companies. Competition could force us to reduce the prices of our products, which would result in reduced profit margins and could harm our ability to provide adequate service to our customers. Our pricing model for our software products is a combination of (1) initial licensing fees, (2) transactional occurrence fees, (3) support and maintenance fees, and (4) engineering service fees. Also, the market may demand alternative pricing models in the future. 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.

Fluctuations in our quarterly results could cause the market price of our shares to decline.

Our quarterly operating results can vary significantly depending on a number of factors. These factors include:

- our ability to close licenses of our SSP products to third parties on a timely basis;
- the volume and timing of orders received during the quarter;
- the mix of and changes in customers to whom our products are sold;
- the mix of product and service revenue received during the quarter;
- the mix of development license fees and commercial use royalties received;

the timing and acceptance of new products and product enhancements by us or by our competitors;

changes in product pricing;

buyouts of commercial use licenses;

product life cycles;

the level of our sales of third-party products;

variances in costs in fixed price contracts;

purchasing patterns of customers;

competitive conditions in the industry;

foreign currency exchange rate fluctuations;

business cycles and economic conditions that affect the markets for our products; and

extraordinary events, such as litigation, and related charges.

All of these factors are difficult to forecast. Our future operating results may fluctuate due to these and other factors, including our ability to continue to develop innovative and competitive products. An increasing amount of our sales orders involve products and services that yield revenue over multiple quarters or upon completion of performance. If license agreements entered into during a quarter do not meet our revenue recognition criteria, even if we meet or exceed our forecast of aggregate licensing and other contracting activity, it is possible that our revenues would not meet expectations. Due to all of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be viewed as an indication of our future performance. In the past, we have experienced actual performance that did not meet financial market expectations. It is likely that, in some future quarters, our operating results will again be below the expectations of stock market analysts and investors.

International sales of our products, which we expect to comprise a significant portion of total revenues, expose us to the business and economic risks of international operations.

Sales from outside of the United States accounted for approximately 53% and 10% of our total revenue in the three months ending March 31, 2004 and 2003, respectively, and are expected to increase over time. We expect to market SSP in Europe. Economic conditions in Europe generally and fluctuations in the value of the euro against the U.S. dollar and British pound sterling could impair our revenues and results of operations. International operations are subject to a number of other risks. These risks include:

foreign government regulation;

reduced protection of intellectual property rights in some countries where we do business;

longer receivable collection periods and greater difficulty in accounts receivable collection;

unexpected changes in, or imposition of, regulatory requirements, tariffs, import and export restrictions and other barriers and restrictions;

potentially adverse tax consequences;

the burdens of complying with a variety of foreign laws and staffing and managing foreign operations;

general geopolitical risks, such as political and economic instability, hostilities with neighboring countries and changes in diplomatic and trade relationships; and

possible recessionary environments in economies outside the United States.

Product defects can be expensive to fix and may cause us to lose customers.

Our software products, like all software products, may have undetected errors or compatibility problems. This is particularly true when a product is first introduced or a new version is released. Despite our testing, our products might be shipped with errors. If this were to happen, our products could be rejected by customers, or there might be costly delays in correcting the problems. Our products are increasingly used in systems that interact directly with the general public, such as in transportation and medical systems. In systems such as these, the failure of our product could cause substantial property damage or personal injury, which would expose us to product liability claims. Our products are used for applications in business systems where the failure of our product could be linked to substantial economic loss. Our agreements with our customers typically contain provisions designed to limit our exposure to potential product liability and other claims. It is likely, however, that these provisions are not effective in all circumstances and in all jurisdictions. We may not have adequate insurance against product liability risks and renewal of our insurance may not be available to us on commercially reasonable terms. Further, our errors and omissions insurance may not be adequate to cover claims.

A product liability claim or claim for economic loss brought against us could lead to unexpected large expenses and lost sales. Also, if we ever had to recall our product due to errors or other problems, it would cost us a great deal of time, effort and expense. Our operations depend on our ability to protect our computer equipment and the information stored in our databases against damage by fire, natural disaster, power loss, telecommunications failure, unauthorized intrusion and other catastrophic events. The measures we have taken to reduce the risk of interruption in our operations might not be sufficient. As of the date of this report, we have not experienced any major interruptions in our operations because of a catastrophic event.

If we lose key personnel or are unable to hire additional qualified personnel as necessary, we may not be able to successfully manage our business or sell our products.

Our future performance depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and operations personnel. We do not have agreements with any of our key personnel that require them to work for us for a specific term, and we do not maintain any key person life insurance policies. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales, marketing and operations personnel, many of whom are in great demand. Competition for qualified personnel can be intense in the San Francisco bay area, where our U.S. operations are headquartered.

If we fail to protect our intellectual property rights, competitors could introduce similar or superior products, and we could lose market share.

We depend on our proprietary technology. Despite our efforts to protect our proprietary rights, it may be possible for unauthorized third parties to copy our products or to reverse engineer or obtain and use information that we consider proprietary. Our competitors could independently develop technologies that are substantially equivalent or superior to our technologies. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which software piracy of our products exists, software piracy can be expected to be a persistent problem. Effective protection of intellectual property rights may be unavailable or limited in foreign countries. The status of U.S. patent protection in the software industry is not well defined and will evolve as the United States Patent and Trademark Office grants additional patents. Patents have been granted on fundamental technologies in software, and patents may issue that relate to fundamental technologies incorporated into our products.

Our products may infringe the intellectual property rights of third parties, and third parties may infringe our proprietary rights, either of which may result in lawsuits, distraction of management and the impairment of our business.

As the number of patents, copyrights, trademarks and other intellectual property rights in our industry increases, products based on our technology may increasingly become the subject of infringement claims. Third parties could assert infringement claims against us in the future. Infringement claims with or without merit could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, might not be available on terms acceptable to us. 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, whether or not the litigation is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks. If there is an adverse ruling against us in any litigation, we may be required to pay substantial damages, discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. Our failure to develop or license a substitute technology could prevent us from selling our products.

Some security holders have rights under their warrants to purchase significant numbers of American Depository Shares (ADSs) at nominal value upon the occurrence of specified events which, if triggered, would dilute the ownership interests of existing security holders.

Some security holders have rights to be issued additional ADSs by Insignia if the registration statements covering their shares and the shares underlying their warrants are suspended for more than 60 days in any 12 month period. We must issue a total of 252,000 ADSs if we suspend registration statement number 333-51234 for more than the 60 days in any 12 month period, and a total of 65,800 ADSs if we suspend registration statement number 333-57528 for more than the 60 days in any 12 month period. We have not suspended registration statements for more than 60 days in any 12 month period in the past. However, because registration statement number 333-57528 was not declared effective by the Securities and Exchange Commission by May 14, 2001, we made available to certain investors an additional total of 65,800 ADSs. Three of four investors have purchased their ADSs and one investor has yet to purchase the shares available to it. The purchase price shareholders have paid or will pay per additional ADS is the nominal value, or £0.20 per ADS, which is the lowest amount these shares can be purchased under English law. If we issue additional ADSs under these obligations, the ownership interest of existing shareholders will be diluted.

We are at risk of securities litigation which, regardless of the outcome, could result in substantial costs and divert management attention and resources.

The prices for our ADSs have fluctuated widely in the past. During the three months ended March 31, 2004, the closing price per share of Insignia ranged from a high of $3.34 to a low of $0.91. Under the rules of The Nasdaq Stock Market, our stock price must remain above $1.00 per share for continued quotation of our shares on the Nasdaq SmallCap Market. Stock price volatility has had a substantial effect on the market prices of securities issued by us and other high technology companies, often for reasons unrelated to the operating performance of the specific companies. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted against high technology companies. We may in the future be the target of similar litigation. Regardless of the outcome, securities litigation may result in substantial costs and divert management attention and resources.

Our investors may have difficulty enforcing judgments against us in U.S. courts because many of our assets and some of our management are located in England.

Insignia is incorporated under the laws of England and Wales. Two of our directors reside in England. All or a substantial portion of the assets of these persons, and a significant portion of our assets, are located outside of the United States. It may not be possible for investors to serve a complaint within the United States upon these persons or to enforce against them or against us, in U.S. courts, judgments obtained in U.S. courts based upon the civil liability provisions of U.S. securities laws. There is doubt about the enforceability outside of the United States, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities based solely upon U.S. securities laws. The rights of holders of our shares are governed by English law, including the Companies Act 1985, and by our memorandum and articles of association. The rights of holders of our ADSs are also affected by English law. These rights differ from the rights of security holders in typical U.S. corporations.

Insignia has undergone a class action lawsuit and an SEC investigation in the past eight years.

On April 3, 1996, a class-action lawsuit was filed against us alleging that we misrepresented our business, the strength of our sales force and our financial health. The suit stemmed from our failure to achieve the consensus earnings estimates of research analysts in the first quarter following our initial public offering in November 1995. In August 1997, we reached a memorandum of understanding to settle the suits. Although we never agreed with the allegations, we paid $8.0 million to the plaintiffs, of which our insurance company paid $7.5 million. In February 1997, we restated our financial results for the quarters ended March 31 and June 30, 1996. We revised our revenue and net income numbers downward for these two quarters due to inflated revenues resulting from misstatement of inventory levels of one of our resellers by two of our sales and marketing personnel. We agreed with the SEC to cease and desist from engaging in similar accounting practices. The two Insignia sales and marketing people involved in the revenue misstatement are no longer with Insignia and were forced to pay significant fines. The Company did not have to pay any fines.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the three months ended March 31, 2004 approximately 100% of our total revenues and 66% of our operating expenses were denominated in U.S. dollars. Most of our remaining expenses are British pound sterling denominated and consequently we are exposed to fluctuations in British pound sterling exchange rates. There can be no assurance that such fluctuations will not have a material effect on our results of operations in the future. We did not enter into any currency option hedge contracts in 2003 or the first quarter of 2004.

We have, at times, an investment portfolio of fixed income securities that are classified as available-for-sale-securities. These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities.

Item 4. Controls and Procedures

We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Exchange Act and the rules and regulations of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our principal executive officer and principal financial officer within the 90-day period prior to the filing of this Quarterly Report on Form 10-Q. The principal executive officer and principal financial officer have concluded, based on their review, that our disclosure controls and procedures, as defined at Exchange Act Rules 13a-14(c) and 15d-14(c), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed as part of this Report:

Exhibit Number	Exhibit Title
10.03(1)	Amended and Restated 1995 Incentive Stock Option Plan for U.S. Employees
10.42(1)	Amended and Restated 1995 Employee Share Purchase Plan
10.86	Assignment of Intellectual Property Agreement between Insignia Solutions plc, Insignia Solutions Inc. and esmertec A.G. dated February 13, 2004
31.1	Section 302 certification of Chief Executive Officer
31.2	Section 302 certification of Chief Financial Officer
32.1	Section 906 certification of Chief Executive Officer
32.2	Section 906 certification of Chief Financial Officer

(1) Supercedes previously filed exhibits.

(b) Reports on Form 8-K

We filed two Current Reports on Form 8-K during the first quarter of 2004: one Form 8-K was filed on January 9, 2004, which reported matters under Items 7 (Financial Statements, Pro Forma Financial Statements and Exhibits) and 12 (Results of Operations and Financial Condition), and one Form 8-K was filed on February 5, 2004, which also reported matters under Items 7 and 12.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INSIGNIA SOLUTIONS PLC
(Registrant)

Date: May 17, 2004

/s/ ROBERT E. COLLINS
ROBERT E. COLLINS
Chief Financial Officer

Signature	Capacity	Date
/s/ Mark E. McMillan Mark E. McMillan	Chief Executive Officer	May 17, 2004
/s/ Robert E. Collins Robert E. Collins	Chief Financial Officer	May 17, 2004

36